DEFENCE CONSTRUCTION (1951) LIMITED

ANNUAL REPORT 2006–2007

Canada

DEFENCE CONSTRUCTION (1951) LIMITED 2006–2007 ANNUAL REPORT

DEFENCE CONSTRUCTION CANADA (DCC) is a Crown corporation with a mandate to provide contracting, construction contract management and related infrastructure services in support of the defence of Canada.

The prime beneficiary of DCC services is the Department of National Defence (DND).

SERVICES INCLUDE:

- Procurement
- Contract Management
- Environmental Services
- Project and Program Management Support
- Infrastructure Support Services

HEAD OFFICE

Defence Construction Canada
Constitution Square
350 Albert Street, 19th Floor
Ottawa, ON K1A 0K3

ATLANTIC REGION

Defence Construction Canada
3 Spectacle Lake Drive, Suite 230
Dartmouth, NS B3B 1W8

QUEBEC REGION

Defence Construction Canada
(Olympic Village – West Pyramid)
5199 Sherbrooke Street, Room 2700
Montreal, QC H1T 3X2

ONTARIO REGION

Defence Construction Canada
Howard Maitland Building
780 Midpark Drive, Suite 205
Kingston, ON K7M 7P6

WESTERN REGION

Defence Construction Canada
13220 St. Albert Trail, Suite 210
Edmonton, AB T5L 4W1

CDC-DCC

Defence Construction Canada
Construction de Défense Canada

www.dcc-cdc.gc.ca

The cover of this report is printed on Forest Stewardship Council certified paper with 30% post consumer fibre.

Inside pages are printed on ecologo-certified recycled paper with 30% post-consumer fibre and 70% virgin fibre without atomic chlorine.

Mission

The primary mission of Defence Construction Canada (DCC) is to provide high-quality, timely and efficient contracting, contract management and related services to support the Department of National Defence (DND) and the Canadian Forces (CF) in the long-term development and management of facilities infrastructure. DCC will support the timely delivery of defined projects or supplies for other government departments and agencies in accordance with its mandate.

Vision

Defence Construction Canada's vision is to be the leading provider of innovative solutions that add value for its client, foster growth in its employees and make meaningful contributions to its industry.

Values

Dedication

DCC is dedicated to supporting the infrastructure and environment requirements of the Department of National Defence. For over 55 years, DCC employees have dependably and diligently carried out that mission.

Fairness

DCC deals with its client, contract partners and employees in a fair and ethical manner, advocating mutual respect and professionalism in the attainment of the common interests of all parties.

Competence

DCC has created a dynamic working environment in which the qualifications, experience and expertise of employees are focused on developing innovative solutions to the client's needs.

Corporate Objectives

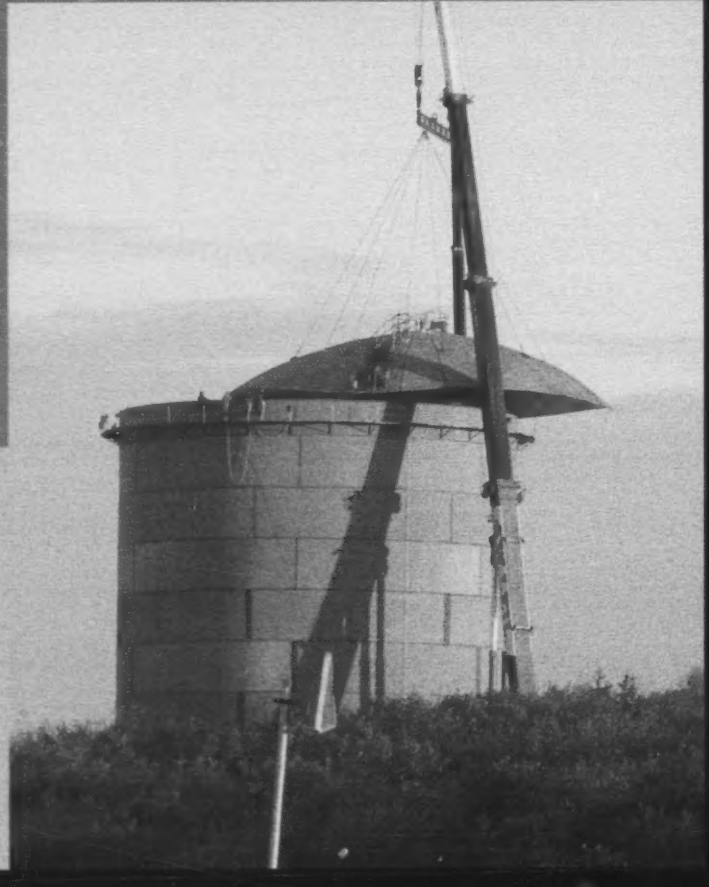
As a Crown corporation, DCC aims to achieve the following corporate objectives related to governance and leadership, service delivery, stakeholder relationships, and corporate support and organizational capability:

1) To ensure DCC's success through strong and ethical leadership of the Corporation;

2) To be an organization that fosters industry, organizational and contractual relationships in an ethical, fair and professional manner;

3) To meet client requirements through the delivery of value-added, high-quality, timely and efficient services in support of defence projects; and,

4) To support service delivery through robust human resources, financial and business process systems.



A crane positions the roof on a new water reservoir at 12 Wing Shearwater in October 2006. The reservoir was part of a $10.3-million municipal services upgrade project at the base, which also included upgraded water, sewer and communication mains, building laterals, as well as new sidewalks and asphalt. DCC provided tendering and construction management for the project.

Defence Construction Canada
Construction de Défense Canada
CDC-DCC

Board of Directors
Conseil d'administration

June 29, 2007

The Honourable Michael M. Fortier, P.C.
Minister of Public Works and Government Services
The Senate of Canada
Ottawa, Canada
K1A 0A6

Dear Minister:

I am pleased to submit to you, on behalf of the Board of Directors, the Annual Report for Defence Construction (1951) Limited, for the fiscal year ended March 31, 2007. This submission is made in order to fulfill the Board's responsibilities respecting governance of the Corporation and in accordance with Part X of the *Financial Administration Act.*

The mission of the Corporation is to assist the Department of National Defence in meeting its operational, construction and property management requirements, as well as supporting the timely delivery of defence projects or supplies for other government departments and agencies in accordance with its mandate.

In our role as a Crown corporation, we remain aware of the need to maintain transparency in the conduct of our operations. Although the Corporation is a mature organization, we regularly seek ways to improve and review elements of our governance procedures as well as ways to improve the quality of our communications by way of our Annual Report to you as Minister responsible to Parliament and to our many stakeholders.

As required, this report also includes the Corporation's financial statements for the period April 1, 2006, to March 31, 2007, along with the auditor's report from the Auditor General of Canada, who has audited these financial statements.

Both the Board of Directors and senior management of the Corporation remain committed to building on our past successes and look forward to meeting the new challenges that lie ahead.

Respectfully submitted,

John D. McLure
Chair

Constitution Square, 350 Albert Street, 19th Floor, Ottawa, Canada K1A 0K3 (613) 998-9548 Fax: (613) 998-1061
Constitution Square, 350, rue Albert, 19e étage, Ottawa, Canada K1A 0K3 (613) 998-9548 Téléc. : (613) 998-1061

Canada

Table of Contents

Highlights 2006–07 2

Message From the Chair 5

Message From The President 6

Corporate Profile 7

Operating Environment 2006–07 13

Service Delivery 16

- Contract Services 16
- Operations 19
- Service Delivery Highlights 22

Governance 26

- DCC Board of Directors 28
- Managing Risk 29

Organization 31

- Executive Team 33
- Senior Management Team 34
- Human Resources 35
- Awards and Recognition 39

Update On Strategic Initiatives 41

Management Discussion And Analysis 45

- Financial Performance 45
- Future Outlook 52

2006–07 financial statements 55

HIGHLIGHTS 2006–07

Meeting increasingly diverse client needs during a period of high-activity while exceeding client expectations are among the success stories for DCC in 2006–07. Continuing the trend of the past five years of an expanding portfolio of specialty services, in addition to its mainstay of construction contract management, DCC continues to be an unparalleled resource to the Department of National Defence.

BUSINESS VOLUME

CONTRACT EXPENDITURES — $468,736,000
(2005–06: $445,293,000)

Contract expenditures increased slightly by 5.0%. This is consistent with the variation in number and size of individual construction and consulting projects that happen from year to year. (p. 25)

SERVICES REVENUE — $47,826,000
(2005–06: $42,481,000)

Services revenue has increased by 13.0% over last year as the demand for DCC services continues to grow. Since billing rates remained constant from year to year, the increase is primarily due to an overall increase in business volume, which accounted for 11.0% of the increase. The remainder of the increase is attributable to a combination of factors, including a change in the mix of billable resources used and the effect of certain fixed fee arrangements. (p. 45)

NUMBER OF CONTRACTORS AND CONSULTANTS USED — 1,212 (2005–06: 1,287)

In 2006–07, DCC conducted business with 1,212 different firms – another example of how DCC conducts open and fair business practices and fosters competition in the marketplace.

QUALITY

LEVEL OF CLIENT SATISFACTION — 98.0%
(2005–06: 98.6%)

Continuous improvement in its service delivery is something DCC takes seriously. So, throughout the year, representatives meet with each of its client groups to gather feedback on its overall performance. Client satisfaction assessments are scored on a scale of one to five. A score of three means DCC met expectations and a score of four or five means that DCC surpassed expectations. Last year, 98.0% of all surveys collected met

In June 2006, DCC staff at the Cold Lake Site Office and the 4 Wing Construction Engineering Squadron (4 WCE) received the Wing Commander's Commendation for their joint efforts in support of the world-renowned Exercise Maple Flag. They were given less than four months to prepare a camp that could accommodate more than 5,000 participants in this technologically advanced, live-fire Air Force event for Canadian and Allied Forces.

From left: Randy Blackwell (WCO PMO), William Hikiro (WCE Contracts), Meredith Suttie (WCE PMO), Col. Greg Matte (Wing Commander), Chief Warrant Officer Ed Ingelby (Primrose Lake Evaluation Range), and DCC Contract Coordinator Skye Klaus.

or surpassed client expectations. While it has remained consistently positive over the past few years, DCC moves swiftly to settle issues where required. (p. 22)

SUCCESSFUL CONTRACTING RATIO — 94.7% (2005–06: 93.6%)

DCC understands the amount of time and effort that the industry spends preparing and submitting tenders. Working directly with DND, the Corporation ensures projects meet the necessary requirements by screening them before going to tender. This helps reduce the risk of a failed tender call. Tender prices that exceed the available budget amount is the most frequent reason for tenders not resulting in a contract award. (p. 18)

NUMBER OF ENVIRONMENTAL INCIDENTS — 0 (2005–06: 0)
NUMBER OF SAFETY INCIDENTS — 3 (2005–06: 9)

A safe workplace is every employee's right. DCC reports on environmental incidents that occur as a result of policies, procedures, or management actions. None exceeded the reporting criteria last year. Time lost by DCC employees as a result of workplace accidents totalled 1,191 hours in 2006–07. Of these lost work hours, 1,160 of those hours is from an incident reported on in 2005–06, and time off by that employee carried over into 2006–07. If these hours are excluded, the three incidents occurring in 2006–07 resulted in 31 hours of lost work time by employees. No incidents were the result of negligence on the part of DCC's management or administration. (p. 11)

VALUE OF CONTRACT CLAIMS AT FISCAL YEAR-END — $14,628,938 (2005–06: $6,031,325)

DCC aims to mediate fairly between the Crown and the construction industry. Uniquely positioned to protect the interests of the Crown while ensuring the industry receives fair treatment; DCC understands the needs and issues of both parties. At year-end, there were 15 on-going legal actions with a value of $14.6 million. This is an increase of $8.6 million over last year. This significant increase is due to one specific claim of $9.1 million (p. 24). Excluding this case, the outstanding claims at year-end are $5.5 million, an amount consistent with the trend of the past five years. DCC reports contractual claims, but the contingent liability is carried by DND.

EFFICIENCY

UTILIZATION RATE — 70.6% (2005–06: 72.7%)

Part of DCC's success is its ability to operate cost-effectively and efficiently for the benefit of its client. It strives to keep its overhead costs low and has set a target of 70.0% for its utilization rate. To manage risks associated with its rapid growth and to implement improvements to the service delivery structure, resources were allocated to these areas in 2006–07. This caused a slight decrease in the Corporation's utilization rate to 70.6%, as compared to the previous year. This performance is still above the target rate of 70.0% and can be positively benchmarked against private sector firms in the engineering industry. (p. 37)

DIRECT PERSONNEL EXPENSE MULTIPLIER (DPEM) — 1.43 (2005–06: 1.53)

This mark-up figure represents the factor by which DCC's direct payroll costs (including benefits and compensated absences) are multiplied to determine billing rates. This allows the Corporation to recover all operating costs. The target range for this indicator is 1.50 to 1.60. For the third year in a row, billing rates remained unchanged in 2006–07 in order to return the operating surplus realized in 2005–06 back to the client. This in turn caused the DPEM to decrease by 6.0% from the previous year and fall below the Corporation's normal target range. (p. 38)

PEOPLE

NUMBER OF EMPLOYEES AT FISCAL YEAR-END — 543 (2005–06: 483)

Finding the best people to get the job done right for DND is critical. As a result of increased service demand by clients, DCC's staff grew by 12.5% compared to the previous year. At year-end, DCC had 543 employees compared to 483 employees at the end of 2005–06. (p. 35)

EMPLOYEE RETENTION RATE — 89.0% (2005–06: 90.6%)

As a result of an increase in the voluntary turnover rate the employee retention rate decreased to 89.0% for 2006–07 and fell slightly below the target of 90.0%. This decrease can be attributed to several reasons, with heightened market demands in certain regions of the country being a major factor. To continue building a supportive work environment, DCC evaluates the reasons why people choose to leave the Corporation. (p. 36)

TRANSPARENCY

NUMBER OF ACCESS TO INFORMATION REQUESTS—

DCC complies with both the spirit and the letter of the *Access to Information Act*. In 2006–07, the Corporation processed 17 access to information requests: two from the media, 10 from businesses, one from other organizations, four from the general public and 12 consultation requests from other government departments. In 2005–06, the Corporation processed 17 access to information requests: one from media, four from businesses, three from other organizations, nine from the general public and 24 consultation requests from other government departments.

A $7.6-million infrastructure upgrade at CFB Bagotville was completed in November 2006. A completely new water system had to be installed and 10 kilometres of roadway had to be completely redone, including sidewalks, the replacement of water mains and standardization of road widths. The base was built hastily at the onset of the Second World War and upgrades had not been done since the 1940s.

Audrey Boivin (left), DCC Contract Coordinator for the project, with Michel Gagnon, the civil engineer who conceived the project.

Message from the Chair

I am pleased to report on Defence Construction Canada's (DCC) strong performance in providing architecture, engineering, construction contracting and management services for the Department of National Defence (DND), and on the Corporation's support for the various policy initiatives that have affected DCC over the past year. The hallmark of another positive year was the increase in service activity in all aspects of our business.

Like last year, 2006–07 was a year of continued growth of DCC's specialty services as the Canadian Forces (CF) continued to shift its focus more and more to its core military activities. I am pleased to say that DCC was able to contribute to Canada's leadership in international efforts by providing specialized support staff to the Canadian Provincial Reconstruction Team in Kandahar. These dedicated employees played an important role in the reconstruction and development effort in Afghanistan. DCC welcomed and readily assumed these responsibilities for support to military operations and continues to respond to any further requests for similar services in the future.

Over the past several years, there have been several policy reviews by the Canadian government that touch on areas of DCC's mandate and business lines. The Corporation is committed to implementing promptly and proactively, any regulations, guidelines or best practices that result from any government wide policy reviews. This is an area of strategic importance for both the Board of Directors and the management of the Corporation.

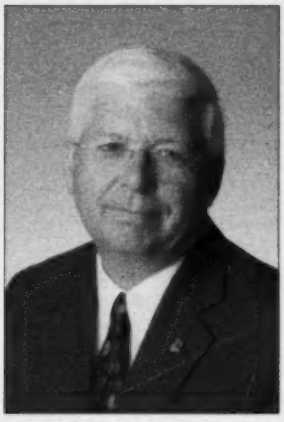
DCC is confident that it has measures in place that comply with and adhere to the principles of the *Federal Accountability Act*, which received Royal Assent in December 2006. DCC ensures internal transparency and accountability by strictly applying the principles of good corporate governance. In addition, DCC's processes for procurement meet all of the established requirements as recommended in the parliamentary task force report on procurement reform in the Canadian government. From time to time, other stakeholders from industry and government look to DCC for advice on contracting methods and practices.

The Board continues to be receptive to any additional measures flowing from the Treasury Board Secretariat's Report on the governance of Crown corporation entitled *Meeting the Expectations of Canadians – Review of the Governance Framework for Canada's Crown Corporations.*

On a personal note, I am very pleased to have been re-appointed for another one year term as Chair and to continue working towards achieving the goals outlined in DCC's corporate strategic plan with my fellow board members, officers and staff of DCC and with our many stakeholders. As we work to reach our targets in the coming year, we first and foremost keep in mind that we are an organization that serves our client to the best of our abilities, while at the same time protecting the interests of the Government of Canada and Canadians.

John D. McLure
Chair

Message From The President



The 2006–07 reporting period represents one of the most dynamic years in recent DCC history and I am very pleased to be able to report on some impressive accomplishments and positive results.

The Corporation continues to implement the National Defence capital construction and maintenance programs using a flexible variety of contract mechanisms. Demand for project management support and environmental services increased significantly over the year, to the point where construction services represented only 52.0% of service demand. The total value of DCC services invoiced to the Department of National Defence (DND) increased by 13.0% over the previous year to $47.8 million. The number of DCC employees increased by a similar percentage over the same period to 543. There is no indication that the rate of growth experienced in recent years will change in the short to medium term.

Among the new opportunities provided to DCC by DND are: the establishment of joint program management support offices for the unexploded explosive ordnance program, the augmentation of in-theatre support for Canadian Forces (CF) operations in Afghanistan by DCC, the implementation of a new design-build procurement process aimed at expediting project implementation, and the development of energy management and fire safety expertise.

The recent growth of the company has added diversity and complexity to the management of its service lines. As a result, a new matrix management system has been implemented to ensure the quality and consistency of services provided to various clients. Although staff growth and an increased management effort caused a slight reduction of productivity, as measured by time utilization on billable work, DND continued to benefit as the Corporation completed a third successive year without raising its service charge rates.

The Corporation has also responded to growth by building its capability to manage human resources (HR) and information services. A special focus on HR management will continue in the coming year in response to certain parts of the country where economic factors and labour market conditions affected DCC's employee retention rate. This measure dipped slightly below its target of 90.0% to 89.0%.

This successful year would not have been possible without the dedication of my senior management team, the competence of our talented employees, and the collaboration of the architectural, engineering and construction industries – as a team on the many projects DCC implements, they all share the credit for delivering projects that meet Canada's defence infrastructure and environment requirements. DCC is proud to be a strategic partner of the CF and DND.

Ross Nicholls, P.Eng.
President and CEO

Corporate Profile

Governing Legislation

Defence Construction (1951) Limited was created pursuant to the *Defence Production Act* and was incorporated by Letters Patent pursuant to the *Companies Act* of 1934. It was granted continuance under the *Canada Business Corporations Act* of 1978. The Corporation is listed in Schedule III, Part I of the *Financial Administration Act*, and DCC follows the governance, planning, reporting and audit practices established in Part X of that legislation. The Corporation, commonly known as Defence Construction Canada or DCC, is accountable to Parliament through the Minister of Public Works and Government Services.

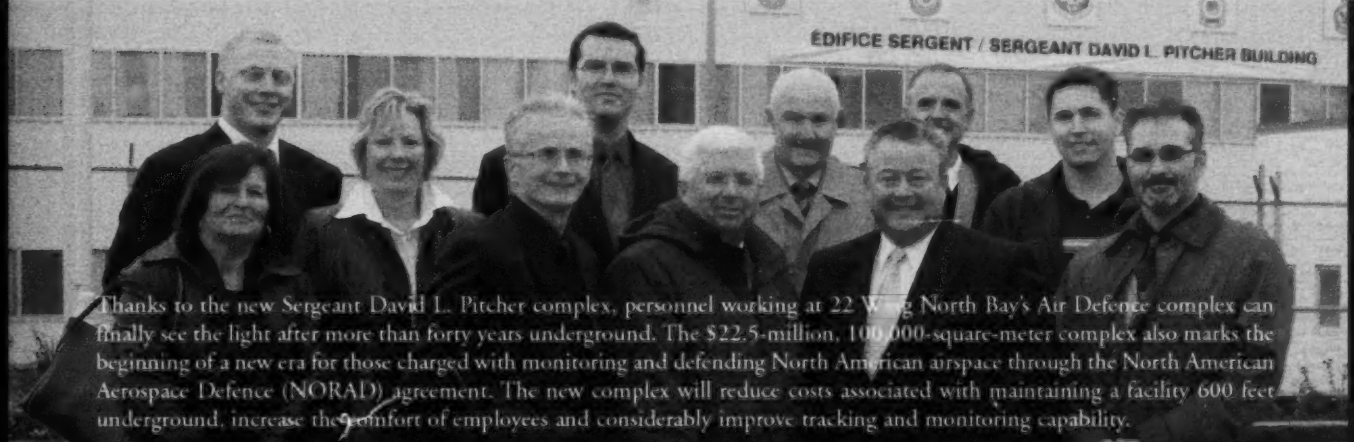
Mandate and Public Policy Role

The Corporation's mandate, set out in its Letters Patent, is to provide a wide variety of property related services in support of the timely delivery of defence projects. The Minister of Public Works and Government Services last reviewed this mandate in 2001 and renewed it without change. A memorandum of understanding (MOU) between DND and DCC sets out the terms of the working relationship.

DCC plays a role in achieving several key policy objectives of the Government of Canada. First, DCC contributes to the results of the Department of National Defence (DND) and the Canadian Forces (CF) in the defence of Canada. The Corporation continues to support CF operations, both domestically and overseas, in the areas of construction, maintenance, environmental project and program delivery, facilities management and the provision of various specialized professional services.

The Corporation plays a role in Canada's long-term economic growth, particularly by supporting DND's efforts to reduce greenhouse gas emissions, solid and hazardous wastes, and energy consumption associated with its infrastructure holdings.

DCC also contributes to meeting the government's policy objective to create a fair and secure marketplace, by complying with internal and international trade agreements, using sound procurement practices and ensuring competition through wide access to government business opportunities.



Thanks to the new Sergeant David L. Pitcher complex, personnel working at 22 Wing North Bay's Air Defence complex can finally see the light after more than forty years underground. The $22.5-million, 100,000-square-meter complex also marks the beginning of a new era for those charged with monitoring and defending North American airspace through the North American Aerospace Defence (NORAD) agreement. The new complex will reduce costs associated with maintaining a facility 600 feet underground, increase the comfort of employees and considerably improve tracking and monitoring capability.

Back Row (from left): Shawn Stirling – Bird Construction, Project Superintendent, Kevin Farrow – Bird Construction, Project Manager, Ed Rea – DCC Contract Coordinator, Alan Dunn – DCC Area Engineer, Ryan Lawson – DCC Contract Coordinator. Front row (from left): Sharon Binz – DCC North Bay Administrative Assistant, Guylaine Sullivan – DCC North Bay Administrative Assistant, Randy McGee – DCC Ontario Regional Manager, Ross Nicholls – DCC President and CEO, Mark McLaren – Bird Construction, Vice President, Terry Brownlee – DCC North Bay, Manager, Site Operations

The Corporation works closely with various levels and sectors of the Canadian construction and consulting industries to ensure alignment with industry trends and standard practices. DCC carries out all of its activities in compliance with law and government policy objectives of a more general application, including those related to corporate governance, innovation, employment equity, official languages, access to information, privacy, transparency, environmental protection, ethics and communications.

History

DCC was created in 1951 to respond to the Government of Canada's need for increased national defence infrastructure. Since that time, DCC has played a major role in projects that have helped shape Canadian history: the construction of the Distant Early Warning (DEW) line across the Arctic in response to Cold War threats; the rapid expansion of military facilities across Canada; and the development of military infrastructure in France and Germany, as part of Canada's commitment to the North Atlantic Treaty Organization (NATO).

Based on its expertise in delivering defence projects, DCC has been asked in the past to help other public organizations manage construction programs, including the construction of the Trans-Canada Pipeline and the 1967 World Exposition (Expo '67). DCC has also supported Canada's strategic defence policy objectives by delivering international aid efforts, such as the construction of hydroelectric developments in South Asia and schools in the West Indies. More recently, DCC has been closely involved in DND's programs to rationalize, consolidate and relocate operating units and to decommission redundant facilities. Over that same period, the Corporation has responded to increases in demand for other infrastructure-related services by developing expertise in a number of disciplines, including environmental and facilities management services.

In 2004–05, the Corporation was again called upon for its contract management expertise. It helped the Department of Foreign Affairs and International Trade build the Canadian Embassy in Kabul, Afghanistan, which was considered part of Canada's defence posture in that region.

DCC's Client

Operationally and administratively, DCC deals with many organizations within DND. The Infrastructure and Environment Group of National Defence Headquarters is the principal point of contact for the centrally managed capital construction and environmental programs. Since the chiefs of the maritime, land and air staffs are responsible for construction and maintenance programs at their own facilities, DCC also has significant dealings within their organizations, primarily at the base/wing/station level. Finally, DCC contracts for and manages consulting, construction and environmental services on behalf of a number of smaller organizations within DND, including the Canadian Forces Personnel Support Agency, the Canadian Forces Housing Agency, and Defence Research and Development Canada. The Corporation also supports Canada's NATO allies through training programs and facilities in Canada. As other government departments and agencies assume roles in Canada's changing defence environment, DCC will respond to requests for support within the scope of its mandate.

Contractors and Consultants

Although DCC creates value for the citizens of Canada, the Corporation does not serve the general public directly. Instead, private sector consultants and contractors constitute the specialized "public" that interacts with DCC. For that reason, it is important for everyone at DCC to understand what is happening in the industry.

DCC employees interact with contractors on job sites every day. However, there are also frequent, more formal, exchanges with the Canadian

Contractors building a recovery trench at 5 Wing Goose Bay in October 2006. DCC provided contract management and tendering services for this $2.1-million project. The trench, which acts as a water trench cleaning and filtering system, was constructed to avert contaminated runoff from polluting surface water at the base. The project was completed in November 2006, on time and under budget.

Construction Association (CCA) and its provincial and trade counterparts. These interactions help keep DCC abreast of developments in the industry and bring a useful measure of realism to interactions between DCC and its contractors. DCC keeps in touch with the insurance industry in order to stay abreast with trends in risk management, and with the surety industry to monitor developments in contract security. Representatives of DCC sit on committees and maintain relationships with such groups as the Association of Consulting Engineers of Canada, the Royal Architectural Institute of Canada, the Canadian Public Procurement Council, and the Canadian Design-Build Institute. Keeping current with industry standards is critical to DCC's ability to deliver service. Increasingly, DCC employees and management are becoming involved in industry organizations for other, non-construction-related service lines.

Service Lines and Practice Areas

As a procurement and contract management agency, DCC serves as the intermediary between its client on one side, and consultants and contractors carrying out the actual project work on the other. The following are the Corporation's principal service lines.

Contract Services oversees the procurement of professional services, construction services, maintenance services and goods. Its responsibilities include procurement and solicitation planning, preparing tender documents, soliciting and evaluating bids, awarding contracts and conducting market assessments.

Contract Management is responsible for contract payment administration, change management, risk management, document and schedule control, quality assurance, quality audit, dispute mitigation and resolution, claims management, performance assessment and warranty management.

Environmental Services handles environmental assessments and audits, technical support for environmental remediation, range clearance, unexploded explosive ordnance clean-up and decommissioning, waste management programs, environmental management systems and hazardous material survey coordination.

Project and Program Management Support controls the scope, costs and schedules of programs and projects, handles program planning and prepares scope documents, such as terms of reference and statements of requirement.

Infrastructure Support Services, while not a formal service line itself, is a component of the Operations Division that aims to develop new service offerings. Over time, these new services will either become new practice areas or be incorporated into existing services.

Canadian Construction Sector

The construction industry is one of Canada's most significant industries in terms of dollars generated, employee base and impact on Canadians. To provide context for the significant contribution that DCC adds to this sector, the following are some industry statistics from two Canadian construction associations. According to the Canadian Construction Association (www.cca-acc.com), and the Construction Sector Council (www.csc-ca.org) as at December 2006,

- The construction industry represents 12.0% of Canada's Gross Domestic Product (GDP) and it maintains and repairs over $5 trillion in assets.
- One in 16 jobs in Canada is in the construction industry, and this trend is forecasted to continue through to 2010.
- The bulk of the current and anticipated employment in the construction industry is in Ontario, Quebec, British Columbia and Alberta.
- In 2005, most construction workers were located in Ontario (39.0%), followed by Quebec (18.0%), and British Columbia and Alberta (16.0%).
- During the next 10 years, the industry will need to replace over 150,000 retiring workers, or 19.0% of the current workforce.

Given the fact that the construction industry consists of a large number of small to medium-sized businesses, DCC needs to understand the challenges and the very real, ongoing business threats these entrepreneurs face. To help contractors do their jobs, DCC works to maintain a level playing field, simplify bidding procedures, and stimulate interest in and encourage competition for all of its contracts.

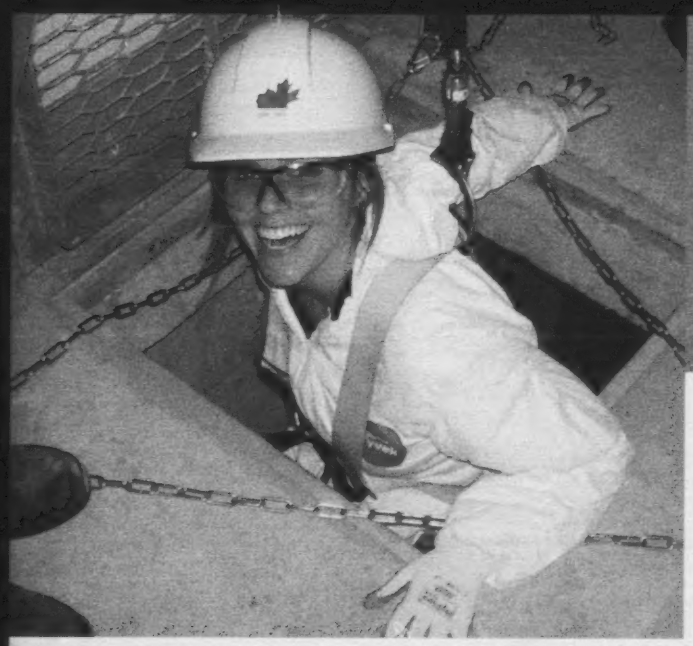
At the same time, DCC realizes that contractors need to maintain cash flow, so it is adept at negotiating fairly when changes must be made to projects. This understanding of contractors, coupled with DCC's historical relationship with its client, enables the Corporation to work successfully with both parties. When differences arise, DCC makes every effort to mediate fairly and reasonably.

Corporate Funding and Equity Structure

DCC operates under a service-billing regime and delivers services to DND on a full cost-recovery basis. The Corporation's equity structure consists of 1,000 authorized shares, of which 32 are issued. The Minister of Public Works and Government Services holds the majority (25), with each member of the Board of Directors holding one qualifying share.

Banking and Audit

The Corporation's banker is the Royal Bank of Canada. Its external auditor is the Auditor General of Canada, while Interis Consulting Inc. provides internal audit services on a contractual basis.



Safe work practices and job procedures are an integral part of DCC's commitment to health and safety. In September 2006, DCC staff from the Quebec Region participated in a four-day confined space training session at CFB Valcartier. Here, regional Health and Safety Coordinator Vicky Deslauriers practises entry into a confined space.

Environmental and Safety Responsibilities

As a corporation, Defence Construction Canada understands that all business activities can have an impact on the environment, and require proper management. Consequently, the DCC Board of Directors and senior management group are committed to the principles of sound environmental stewardship, to exercise due diligence and, as a public institution, to meeting the expectations of Canadians. The Corporation's operational policies and procedures are designed in such a way as to minimize negative environmental impacts at all work sites.

In 2006–07, the environmental management framework, launched in 2002–03, became fully integrated within DCC operations. For example, this means that environmental considerations are a standard part of policy and procedure development, and are formally included in site manager roles and responsibilities. Now, there is a formalized process for environmental incident reporting as part of the operations manual. For corporate services, when purchasing supplies, energy conservation and efficiency is taken into account. This means that appliances are either Energy Star designated, or items made from materials that are recycled, re-used or recyclable are acquired.

In addition to these internal practices, DCC monitors potential impacts of its management of construction and other projects across Canada. DCC's environmental management framework requires employees to report environmental incidents that occur at its work sites. An environmental incident is defined as:

> *Any specific or recurring event(s) that lead to an undesired potential or actual impact on the biophysical environment, the atmosphere, or human health or safety. Such incidents can arise from DCC or contractors' activities in offices or work sites or through third-party activities that affect these sites. Incidents include any legal or regulatory noncompliance, regardless of a physical incident having taken place.*

There is an established set of criteria used to determine which of these incidents is reported, for example, hydrocarbon spills greater than 50 litres. Often, the source of these spills is contractor vehicles. DCC continues to work with contractors in order to manage this situation. In 2006–07, no incidents exceeded the reporting criteria. When such an incident occurs, each is reported to the client. Any type of spill, release or other environmental incident is of major concern to the Corporation. To ensure the Corporation's staff is aware and up to date on potential issues, new environmental lessons learned bulletins are issued on a regular basis.

Maintaining a Safe Work Environment

The management of employee occupational health and safety remains a key concern of the Board, Senior Management, and the Environmental, Safety and Health Committee. DCC continues to invest in safety related communications and training activities.

Employees have developed an increasing awareness of health and safety issues and the Committee and the National Safety Coordinator are highly committed to maintaining DCC's excellent record as a safe workplace. The goal is to have no health and safety incidents occur.

For reporting purposes, the Corporation tracks incidents that result in lost work time. In 2006–07, three incidents were reported and there were 1,191 hours of lost work time recorded, a slim fraction of total workforce hours. Of these lost work hours, 1,160 of those hours are from an incident reported on in 2005–06, and time off by that employee carried over into 2006–07. If these hours are excluded, the three incidents occurring in 2006–07 resulted in 31 hours of lost work time by employees. To compare to past years, in 2005–06, nine incidents involving DCC employees were reported. The total number of lost work hours for these incidents was 197 hours. In 2004–05, eight incidents resulted in 70 hours of lost work time. None of these incidents were the result of negligence on the part of DCC's management or administration.

Success Factors

Five characteristics of DCC's services allow the Corporation to deliver quality service consistently to DND operations. These factors have a direct impact on the viability of the Corporation.

FOCUS:

For more than half a century, DCC has had a single focus on a major client and, consequently, has developed an understanding of the client's needs and preferred approaches. This unique characteristic makes DCC unlike any other organization of this size in either the private sector or the public sector.

SERVICE:

Standing midway between the public and private sectors, DCC knows how both the construction industry and the government work. This knowledge allows DCC to effectively communicate requirements to both the client and external service providers.

DELIVERY:

DCC provides immediate and reliable access to technical and administrative expertise and, unlike many providers of similar services, does so on a continuing basis at the work site.

FLEXIBILITY:

As a Crown corporation, DCC can manage its staff and administer projects with efficiency and flexibility equal to that of the private sector.

VALUE:

DCC seeks cost-effective solutions to DND's technical needs and maintains low overhead costs in providing its services.

A DCC coordinated project to increase ammunitions storage facilities at CFB Suffield, received the American Concrete Institute Award of Excellence in 2007, in the Design and Construction in Concrete category. The $9.8-million project was initiated by the British Army Training Unit Suffield (BATUS) and included the construction of six buildings on a 28-hectare site, including explosive storehouse buildings, one mechanical handling equipment building, one ammunition process building, and associated earth barricades for blast protection. Because the end user included BATUS and the facility is located on Canadian soil, British and Canadian building and munitions handling codes had to be met.

Operating Environment 2006–2007

During the planning process for 2006–07, several factors were cited as having a potential impact on the course of DCC's business for that year. Changes in client resources or structure, economic swings in the industry and the labour force, as well as the impact of some new government policies were considered. There were varying degrees of impact in each of these areas. To appreciate the context within which DCC conducts its business, activity in the following areas had an impact on the course of DCC's operations last year.

Client Suppport

The common thread reported on in the last few annual reports has been that DCC's business has grown on many fronts, in support of its client. Over the past three years, DCC's employee count has increased by 60.0%. Last year, revenue increased by 13.0%, continuing the growth trend of the past several years. Although DND's overall spending on construction and maintenance has remained consistent at $450 to $500 million annually, the Corporation has grown due to increasing demand for specialty services, such as environmental remediation, facilities management and project management support. Last year, 38% of DCC's total revenue came from non-construction services. DCC has responded to this increased diversity of services by implementing a matrix style of management for its service delivery process. In addition to the management structure based on business units, each service line now has a responsibility structure extending from the appropriate Vice-President to the service provider.

Business Growth And Human Resources

DCC's most valued asset is its people, and since the past few years have been a time of growth, different factors affecting the Corporation's human resource capacity have registered an impact on the business. For example, 62.0% of employees have been with Corporation for five years or less. This group of employees has had limited exposure to the culture, history and practices of the Corporation. At the same time, there is a clear demographic shift in the employee population. DCC recognizes that it must consider the motivation and personal values of the new generation of younger employees. These factors of experience and identity continue to have an impact on the development of policies and practices for recruitment and retention, succession planning, and on the Corporation's work in training and development.

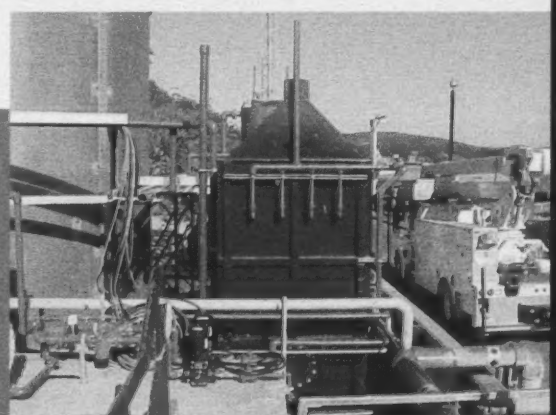
High labour demand in the industry also affects DCC's ability to recruit and retain qualified staff. Despite increased competition, particularly in British Columbia and Alberta, DCC has been able to attract and retain sufficient staff to fulfill its mandate. Forward-looking research carried out by the Construction Sector Council indicates that, for in the future, competition for skilled labour in the construction sector will be intense. Last year, DCC worked on its emerging recruitment strategy to address these challenges, and the Corporation continues to focus on ensuring a corporate makeup that reflects Canadian society as a whole.

The Construction Industry

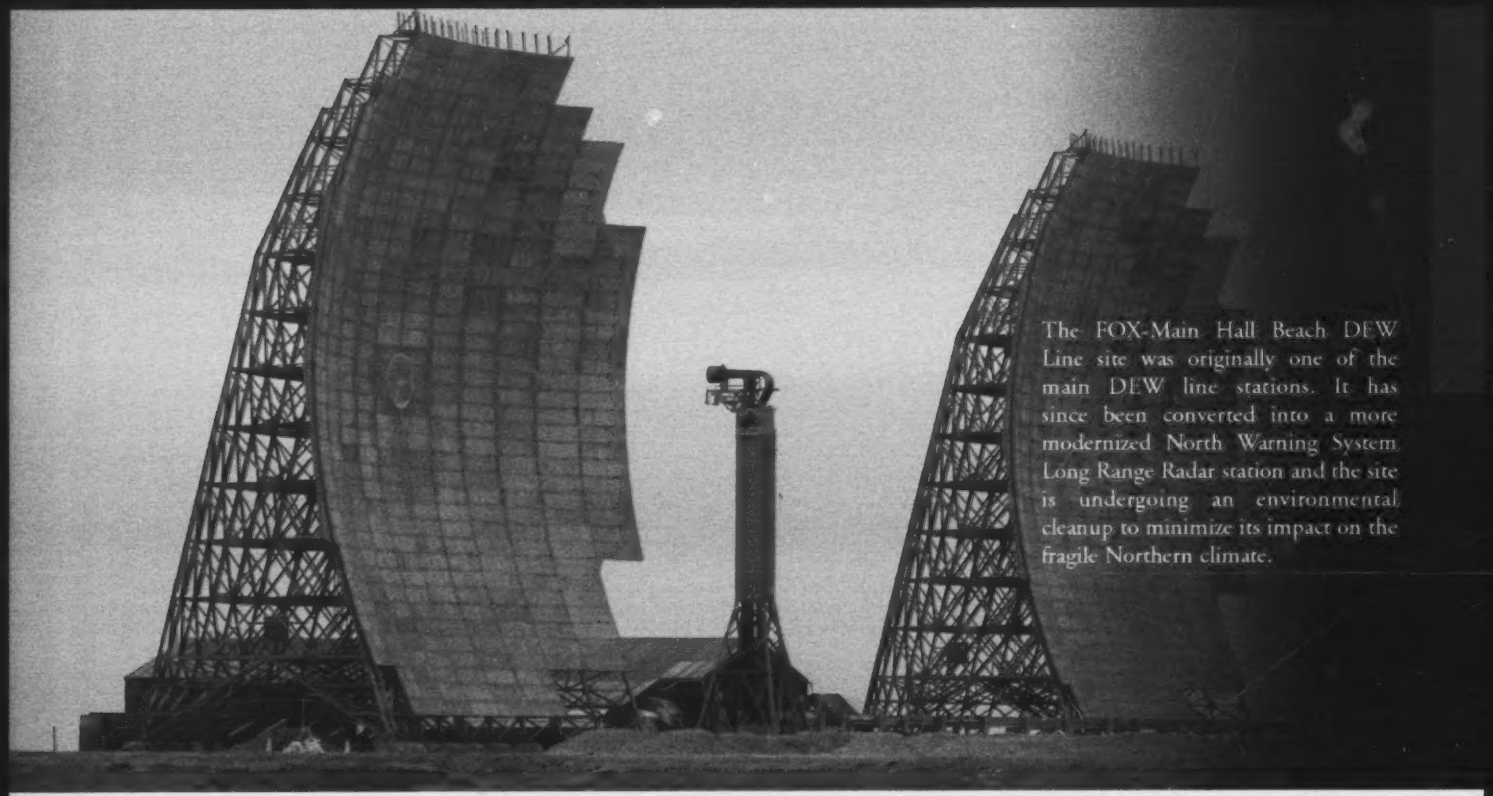
The construction industry experiences activity cycles related to the economic influences of house building, manufacturing and resource development. The Canadian industry is currently booming, and demand is surpassing supply in some areas of the country. According to the Canadian Construction Association, this situation affects the number of contractors who respond to DCC's tenders, so the Corporation is both monitoring and soliciting interest in procurement opportunities to ensure competitive tenders and successful contract awards. Supply and demand in the construction industry also affects the availability of architectural, engineering and environmental consultants. Although there is a lot of competitive activity going on in the construction sector, DCC continued to meet client expectations throughout 2006–07.

Corporate Governance and Government Of Canada Policy

Over the past several years, events in the private and public sectors have had a significant impact on the way business is conducted. Public stakeholders demand complete transparency and accountability in all operations and management activities. DCC has participated in government-wide policy reviews and strives to ensure that its



Thanks to the upgraded Oily Wastewater Treatment Facility at CFB Esquimalt, wastewater from the ballasts of Canadian Navy ships is being cleaned more efficiently and with less manpower than before. From March 2006 to March 2007, DCC provided project management services for this $2.1-million construction project that uses new Canadian technology from a North Vancouver-based company to remove oils, diesels and other hydrocarbons from the seawater in the ships' ballast tanks. Some of the recovered oil is then reused as fuel in the dockyard's steam plant boilers. The project is contributing to the environmental protection that is a strong priority for DND, while reducing costs and boosting efficiency.



The FOX-Main Hall Beach DEW Line site was originally one of the main DEW line stations. It has since been converted into a more modernized North Warning System Long Range Radar station and the site is undergoing an environmental cleanup to minimize its impact on the fragile Northern climate.

business practices are in line with the intent of central agencies of government. The Corporation is committed to implementing, promptly and proactively, any regulations, guidelines or best practices that result from these reviews. Hence, this area has become a strategic priority for both the Board of Directors and the management of the Corporation. Specifically, the Board continues to monitor additional measures flowing from the Treasury Board Report on Crown corporation governance, *Review of the Governance Framework for Canada's Crown Corporations: Meeting the Expectations of Canadians.* To date, the Corporation has implemented many of the suggested measures. As the government provides direction on the remaining measures, the Board and management will act.

Several recent policy reviews have had direct relevance to DCC's business. One, the Parliamentary Task Force on Procurement Reform, concluded that "there is a need for speed, ease, fairness and transparency, [and] cost-effectiveness in a procurement system, and [it] is based on a foundation of integrity, accountability and transparency." DCC's current processes meet all of these requirements.

Professional ethics and personal integrity have been key elements of DCC's business conduct for over 55 years. Good corporate governance and high expectations in this area are the foundation of daily life at DCC, maintained through internal quality management, auditing and strong leadership. In December 2006, the *Federal Accountability Act* became law. Because of DCC's existing governance framework and policies such as its Code of Business Conduct, the Corporation did not need to make any significant changes to its own internal procedures, as it was already compliant with the terms of the new Act. The Auditor General's last three special examinations did not identify any significant deficiencies in DCC's business practices. DCC employees are aware of their right, under the Corporation's disclosure policy, to report questionable practices directly to the Board.

The Corporation continues to monitor other government policy changes and will modify its business procedures as required, ensuring at the same time that they remain aligned with standard industry practice.

SERVICE DELIVERY

Since DCC's mission is to deliver high quality, timely and efficient defence infrastructure services, achieving excellence in service delivery remains at the forefront of DCC's corporate strategy. Over half a century of work experience with DND has given the Corporation in-depth knowledge of client requirements for defence and security-related projects. Even with this niche, continuous improvement is always a priority. DCC regularly takes steps to maintain and develop new modes of service delivery.

CONTRACT SERVICES

DCC's Contract Services Division (CSD) links DND with the contractors and suppliers who can fill Canada's defence infrastructure needs. CSD provides these procurement services across Canada and overseas. It understands DND's demanding operational requirements, the rigour of the federal procurement policy and the unique practices of the construction industry.

Every year, approximately 1,500 contracts are issued for professional services, construction, goods, and other infrastructure-related work. CSD's innovative, responsive and efficient procurement processes have been designed to meet client and industry needs. The DCC ISO 9001 certified quality program ensures consistent delivery, enhanced client input and continuous improvement. The following processes are a few of the options.

QUICK RESPONSE TENDERS—DCC establishes a source list of contractors at each base to respond to the specific construction needs of each location. Depending on the requirement and value, these contracts can be in place within 14 calendar days.

TENDER BOARDS—Minor construction projects that are equally time sensitive but more complex in nature are candidates for this process. The target time from notice to award for this process is 25 calendar days.

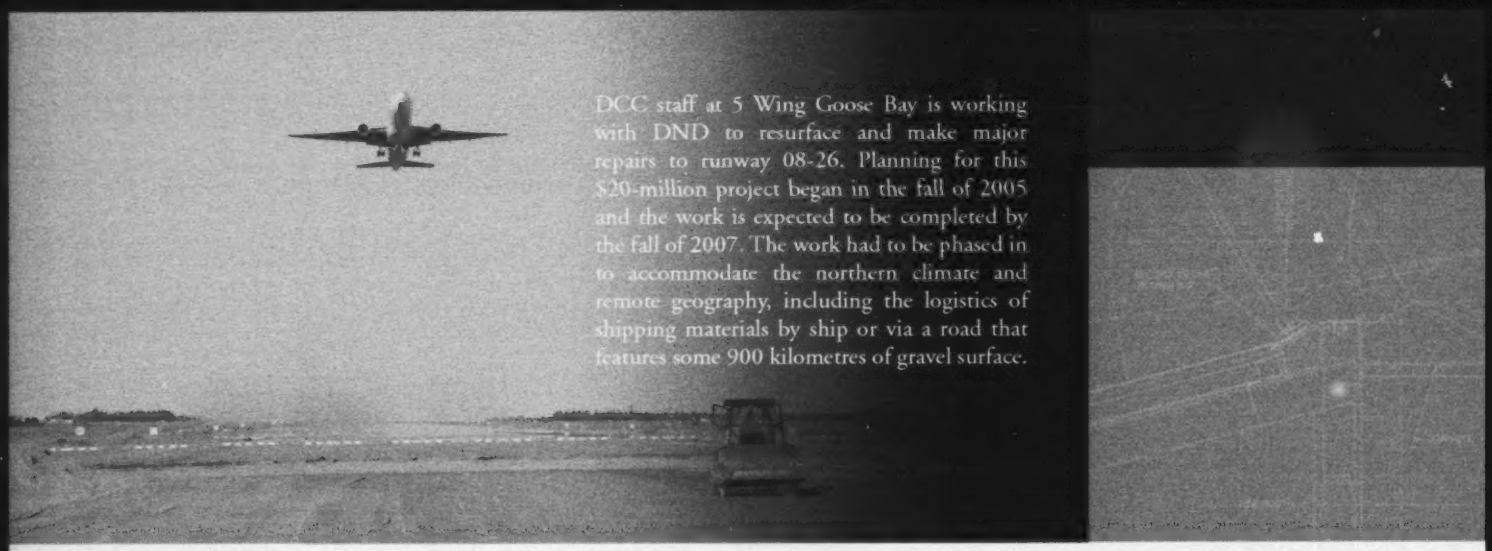
DESIGN-BUILD—This contract option is used to deliver a portion of the major capital construction program. While the time required to contract under this option is longer than the time needed for other standard processes, the overall project delivery time has been reduced from the traditional design-build method.

DCC has many other infrastructure-related tender processes; each designed to meet a particular requirement. The following processes are some of the options.

BEST VALUE CONTRACTS—In design-build projects where the input of proponents in areas such as energy efficiency and maintenance considerations can contribute to lower building life cycle costs, these factors may be evaluated, along with construction cost, to determine which proposal is the best overall value for the client. A rigid, transparent evaluation process is used, since the best value submission may not represent the lowest capital cost.

CONSTRUCTION MANAGEMENT—Contractor expertise is engaged to help manage multiple construction activities.

ENERGY PERFORMANCE CONTRACTS—Firms are contracted to make infrastructure improvements on DND facilities with payment made from the resulting energy savings.



DCC staff at 5 Wing Goose Bay is working with DND to resurface and make major repairs to runway 08-26. Planning for this $20-million project began in the fall of 2005 and the work is expected to be completed by the fall of 2007. The work had to be phased in to accommodate the northern climate and remote geography, including the logistics of shipping materials by ship or via a road that features some 900 kilometres of gravel surface.

STANDING OFFERS—Firms are pre-selected to provide specific services, as and when required.

FACILITY MAINTENANCE CONTRACTS—Expertise is contracted for long-term operation and maintenance of DND facilities.

Timeliness of Procurement

Client groups within DND want to begin project work as soon as possible after receiving internal approval. Since the timeliness of procurement is important both to DND and to the industry, this activity is reported as a key performance indicator. DCC intentionally sets aggressive targets for the timeliness of construction and consultant procurement because DND values expediency. The target represents a reasonable length of time from the point at which the Notice of Proposed Procurement (NPP) is received from the client to the time when the contract is awarded to the contractor or consultant. Factors that affect performance against the targets include the availability of funding, bid anomalies, and changes to the scope and value of the work during the procurement process. Additional time that may be required as a result of these is not included in the targets and often accounts for exceeding the performance targets.

The following two tables demonstrate DCC progress at the end of 2006–07 in terms of timeliness of construction and consultant procurement. To provide a context for these results, the median number of days from NPP to award of the contracts is provided in the tables. The median is used because, based on historical trends, and the multitude of project specific variables, it is reasonable to expect that DCC can achieve the targets 50.0% of the time. In Table 1, the 2006–07 results for the design-build contracts are not reported, as there was only one of these contracts awarded during the year, and exceptional circumstances make the results statistically unreliable. The same was the case in 2005–06 when only four were awarded during the year. The reduced number of design-build contracts is not indicative of a new trend in the use of design-build as a project delivery method; it is simply a cyclical phenomenon and is dependent upon the requirements of the client.

CONSTRUCTION PROCUREMENT – TABLE 1

	RESULTS: 2005–06 YEAR END				RESULTS: 2006–07 YEAR END		
INDICATOR	TARGET	ACTUAL MEDIAN NUMBER OF DAYS TO AWARD	NUMBER OF CONTRACTS	INDICATOR	TARGET	ACTUAL MEDIAN NUMBER OF DAYS TO AWARD	NUMBER OF CONTRACTS
Regular tender call	35 days	34 days	217	Regular tender call	35 days	36 days	172
Tender boards	25 days	26 days	427	Tender boards	25 days	25 days	406
Quick response tenders	14 days	14 days	223	Quick response tenders	14 days	13 days	220
Design-build tenders	120 days	n/a*	4	Design-build tenders	120 days	n/a*	1

**Sampling of contracts was too small to provide a meaningful picture of activity*

CONSULTANT PROCUREMENT – TABLE 2

	RESULTS: 2005–06 YEAR END				RESULTS: 2006–07 YEAR END		
INDICATOR	TARGET	ACTUAL MEDIAN NUMBER OF DAYS TO AWARD	NUMBER OF CONTRACTS	INDICATOR	TARGET	ACTUAL MEDIAN NUMBER OF DAYS TO AWARD	NUMBER OF CONTRACTS
SELECT	25 days	27 days	337	SELECT	25 days	25 days	251
One-step proposal	60 days	55 days	105	One-step proposal	60 days	63 days	77
Two-step proposal	120 days	125 days	12	Two-step proposal	120 days	153 days	8

DCC recognizes the time and effort that the industry expends to prepare and submit tenders. Consequently, to reduce the risk of a failed tender, DCC screens all projects for bidability. At year-end, 94.7% of DCC tender calls resulted in the award of a contract. This compares to 93.6% in 2005–06 and 99.5% in 2004–05. The most frequent reason that tenders do not result in contracts is that the contract price exceeds the approved budget amount. To date, DCC is meeting the industry expectations for a reasonable turnaround time to award a contract after a tender has closed.

Because they are equipped to float and to navigate through deep snow, these tracked "Argo" vehicles are ideally suited for the winter work being conducted at the Lac St-Pierre UXO Site. The southern part of the lake, located near Sorel, Quebec, served as a Munitions Experimental Test Centre (METC) between 1952 and 2000. It is estimated that the lake bottom still holds up to 300,000 projectiles and related debris of various calibers; some may still contain explosives and can be dangerous. DCC is working closely with DND on its Legacy Sites across the country to help eliminate the threat of UXOs. In November 2000 Lac St-Pierre became part of UNESCO's World Network of Biosphere Reserves, and it is home to the largest heron habitat in North America.

OPERATIONS

The Operations Division delivers a broad range of services required to construct and maintain DND facilities, including control towers and hangars, dockyards and armoured vehicle maintenance facilities, community centres, housing, barracks, clinics, water and sewer systems, communications systems, roads and grounds. Other services include firing range inspections, facilities management, project management support, facilities condition reporting, building systems troubleshooting, rapid response to urgent security needs, program management, building commissioning and training.

Throughout 2006–07, DCC provided support to DND for major construction projects across the country, at different Canadian Forces Base (CFB) and Area Support Unit (ASU) locations.

DCC continues to help DND deliver on its environmental commitments. One example of this effort is the upgrade of the oily wastewater treatment plant at CFB Esquimalt. The $2.2-million project consisted of fitting existing infrastructure with state of the art technology that involves using an electro-coagulation unit to remove hydrocarbons from a ship's bilge water. Once the bilge water is pumped out of a ship, it goes through several treatment processes to separate the water and the oil, which is then reused as fuel for dockyard boilers.

In the Atlantic region, the construction of a new central heating plant at 14 Wing Greenwood was completed. With boilers chosen specifically to aid in meeting Kyoto Protocol targets, the $11.6-million facility has increased the efficiency of the base's heating system and is expected to reduce maintenance costs by 50%. Staff at CFB Goose Bay completed the first of two phases of a project to revitalize 5 Wing Goose Bay's 11,000-foot runway. The $20-million project is scheduled to be completed in the fall of 2007. In addition, DCC put in place safety professionals on DND property in Gagetown, New Brunswick, and at Shearwater and Halifax, Nova Scotia. Their primary responsibility is to exercise due diligence on behalf of DND regarding contractor activities. Two such professionals were established and a new site office was set up at CFB Shearwater.

The Quebec region experienced another busy year. A service line agreement (SLA) was reached between the region and 5th Area Support Group in an effort to simplify the billing processes as well as improve service delivery. DCC completed the $7.6-million infrastructure upgrade at CFB Bagotville including a 10 km roadway on the base, as well as the construction of two training facilities on Mont Sorel at CFB Valcartier.

In the Ontario region the construction of a 1,800 square meter theater activation team warehouse was completed. The $3.2-million building will facilitate deployment of the Canadian Forces Joint Signals Regiment (CF JSR) responsible for the various communications needs of the Disaster Assistance Response Team (DART). Support continued for CFB Kingston's energy performance contract (EPC) that received an award for its leadership in pursuing energy efficiency from the Ontario Power Authority's Conservation Bureau. The $21-million EPC is expected to save the base more than $2 million annually in utility costs.

The Western region also experienced a high level of client activity. CFB Suffield's ammunition storage capacity was increased with the construction of six-buildings on a 28-hectare site. The $9.8-million project was awarded the American Concrete Institute Award of excellence in 2007 for the Design Construction in Concrete category. A $5.7-million, 1,800-square-metre lecture training facility and $2.2-million, 307-square-metre addition were completed for the counter terrorist training centre (CTTC), also at CFB Suffield. Officers and senior non-commissioned officers are now enjoying two new 1,799 square metre accommodation buildings, costing $17 million, at CFB Wainwright. A $5.4-million ammunitions transit facility was constructed at CFB Wainwright. The last of a four-phase, five-year, $13.4-million program to rejuvenate the runways at 4 Wing Cold Lake was completed. The $4.5-million

Primrose Lake Evaluation Range (PLER) road construction, site development project at CFB Cold Lake was also completed. This project is part of a larger $80-million project to install state-of-the-art portable digital imaging equipment to evaluate the training occurring on the range.

Contract Management Services

One of DCC's core competencies is contract management. The Corporation provides many services to support the design, construction, renovation and maintenance of a wide variety of facilities for DND's infrastructure and environment program. Key contract management features include the following: contract administration, regular client reporting, coordination of expert services, monitoring of construction schedules, change management; certification of progress payments, certification of contract completion, document control, dispute resolution, and resolution of contractor performance issues. In addition to the activities described above, the following two practice areas fall under contract management.

Commissioning: DCC's capabilities in mechanical, electrical and other infrastructure-related disciplines ensure that building systems are designed, installed, functionally tested and capable of meeting the client's operational needs before the facility is turned over to the client.

Quality Audit and Evaluation: DCC uses a comprehensive system to assess project and construction management processes. An integrated series of activities focuses on investigating and confirming whether processes and activities comply with contract and quality requirements. Quality auditing gives the client confidence that the contractor has achieved the quality requirements of the contract. It also identifies potential areas of nonconformance and ensures that they are tracked and corrected.

Environmental Services

Since the early 1990s, DCC's core staff of environmental specialists has helped DND implement its environmental initiatives — in particular its sustainable development strategy. The Corporation helps DND meet environmental performance targets, comply with regulatory requirements, and manage due diligence and risk. Selected environmental services include the following: environmental impact and site assessments, site remediation and decommissioning,

DCC is providing contract coordination services for an energy performance contract (EPC) at CFB Kingston that received recognition from the Ontario Power Authority's Conservation Bureau for leadership in pursuing energy efficiency. The $21-million EPC is the largest energy Building Initiative project ever conducted in Canada and is expected to save the base $2 million, or 30%, annually in energy costs.

From left: Maj. John Sheahan – Base Construction Engineering Officer at CFB Kingston, Harvey Rosen – Mayor of the City of Kingston, Dave Burley – DCC Manager, Site Operations, David Bowden – Senior Vice-President, Direct Energy Business Services, Peter Love – Ontario's Chief Energy Conservation Officer as well as a Vice President of the Ontario Power Authority, and Randy McGee – DCC Director, Ontario Region.

DCC provides contract and project management support to DND in Kandahar, Afghanistan, to help rebuild the country's infrastructure and improve facilities for Canadian military and civilian personnel. Some of the projects included improving the condition of Afghan National Police facilities, reviving Kandahar University and constructing a paved road in the Panjwayi district to make patrolling safer for Canadian soldiers.

Canadian members of the Kandahar Provincial Reconstruction Team (KPRT), in December 2006. From left: Master Warrant Officer Gilles Caouette, André Sirois – DCC Project Support Officer, Sgt Eric Dagenais, Master Warrant Officer Boyce Parril, Capt Rick Leighton, Warrant Officer Stormy Knight, Sgt. Al Plume, Maj. Dorothy L. Aleknevicus, Master Warrant Officer Al Mandigo, Master Corporal Ken Craig, Warrant Officer Kenny Purcell.

environmental support for project and program management, sustainable development strategy support, policy, compliance and advisory services, waste management auditing and planning, and environmental monitoring and compliance auditing.

Project And Program Management Support

DCC provides a range of fully integrated project management services to complement DND capability and resources. These vary from identifying and analyzing problems to the planning, design and construction phases of a project. The Corporation recognizes the importance of meeting established standards and many of its project managers hold industry recognized certifications. Project management support services offered range from specific tasks to support DND project managers, to turnkey project services and program management.

Infrastructure Support Services

DCC can provide its client with a single window to comprehensive infrastructure support services for its capital program that results in cost-savings and efficiencies for the client. The infrastructure services that DCC offers include facilities management, production of building condition reports, life safety system management, maintenance contract management, utilities management and recapitalization planning. The following four practice areas fall under this category of service.

Energy Support Services: DCC provides specialized assistance to bases in the areas of co-generation and analysis of re-capitalization requirements. This assistance includes energy performance contracting services.

Sustainable Practices: DCC provides expert advice on sustainable practices, including green building technologies and LEED certifications.

Real Property Support: This advisory service includes realty asset life cycle management from the time the client identifies a need for such management until the client disposes of the real property.

Military Operations Support: An important part of DCC's mandate is to help DND to both meet its operational requirements and comply with federal contracting policies. DCC takes the expertise it already provides at bases and wings and brings it to an operational theatre. Currently DCC's primary support efforts to military operations focus on contract and project management support in Kandahar, Afghanistan.

SERVICE DELIVERY HIGHLIGHTS

TRACKING CLIENT SATISFACTION

Completing each project or task to the satisfaction of the client is critical to the success of DCC operations. To this end, the Corporation tracks client satisfaction as one of its key performance indicators. DCC administers these surveys through face-to-face interviews, at the convenience of the client.

Each office surveys the client representative responsible for each service agreement, and collects feedback by service line. Many service agreements involve more than one DCC service line. Surveys are administered on a staggered schedule throughout the year in each region, with the DCC representative often linking the survey interview with another business visit to minimize client interruption.

Over the past several years, the Operations Division has worked to develop a meaningful and relevant method for collecting client feedback. DCC representatives interview clients individually, in person, once a year. Each client has the opportunity to comment on the service DCC provided on all projects that the client was involved in.

Overall, the data and feedback show that DND is satisfied with the quality of DCC service delivery.

In 2006–07, DCC collected 356 surveys, compared to 503 surveys in 2005–06, and 660 surveys in 2004–05. The result is that in 98.0% of the cases, DCC met or exceeded client expectations. The number of surveys is indicative of the number of client representatives that DCC deals with, and not necessarily the number of projects. That is to say that a client representative may be responsible for more than one project. In addition, for this calculation, the scores are weighted according to the value of each service agreement. For example, a survey result where the contract value is $1 million would be weighted more heavily than a survey result on a contract where the value is $10,000. Client satisfaction reports are scored based on a scale of one to five. A score of three meets expectations, and a score of four or five surpasses expectations. Data collected during 2006–07 shows that 53.0% of all surveys received a rating of four to five, 45.0% of all surveys received a rating of three to four, and 2.0% of all surveys received a rating of less than three.

DCC considers all feedback received during this process and swift action is taken where required, especially for those surveys that receive a score of less than three. Each year, DCC receives a range of feedback. Typically, when the client identifies issues, they usually relate to specific incidents that

Christian Bourgeault, DCC Contract Coordinator and Lt. Stastny-Farrelly. They worked together on the construction of two new tactical training facilities modelled on Afghan communities, at Mont Sorel at CFB Valcartier. The facilities were built using recycled 40-foot sea containers that were juxtaposed in various ways. Despite the fact that construction took place during the coldest period of the year in a remote location, the project was completed in a timely manner.

FIGURE 1: TIMELINESS OF CONSTRUCTION CONTRACT COMPLETIONS

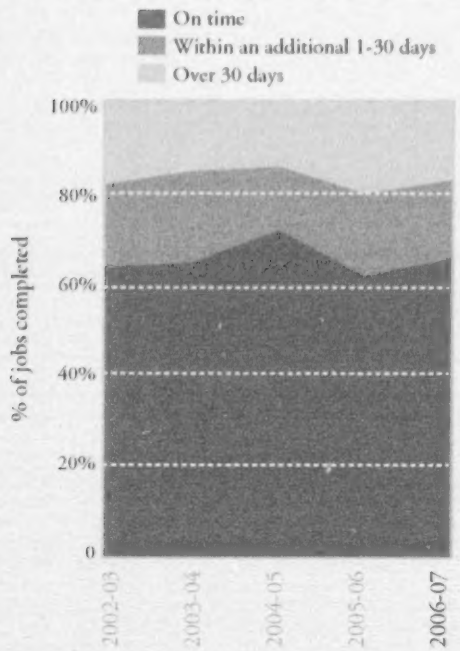
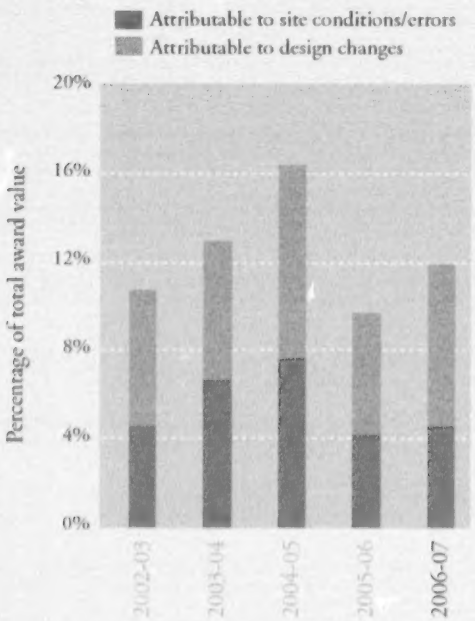


FIGURE 2: CHANGE ORDER VALUES



can fall into one of several categories such as communications, administrative procedural problems or staffing concerns. These matters are addressed by DCC quickly. In 2006–07, the complaints did not indicate any wide-ranging pattern of concern.

Client satisfaction has received a consistently positive rating over the past few years. Figure 1 describes how often DCC meets its contract scheduling targets. A key component of client satisfaction is schedule control. Consequently, DCC monitors timeliness of construction contract completions and works with the client to minimize schedule slippage. When slippage does occur, DCC ensures that DND knows the reasons. In 2006–07, 66.0% of completed construction contracts were finished by the pre-established completion date. Another 17.0% were completed within one to 30 days, and 17.0% were completed in over 30 days.

Figure 2 describes the amount of cost growth on all construction projects. On the basis of 845 contracts completed in 2006–07, the total value of change orders issued represented 12.0% of the original award value of the contracts. Design changes accounted for 7.3% of the increase and 4.7% was a result of unexpected site conditions. This combined amount of 12.0% of changes is a slight increase over last year's total result of 9.6% of the original award value of the contracts. This was due to one major change issued on a single project.

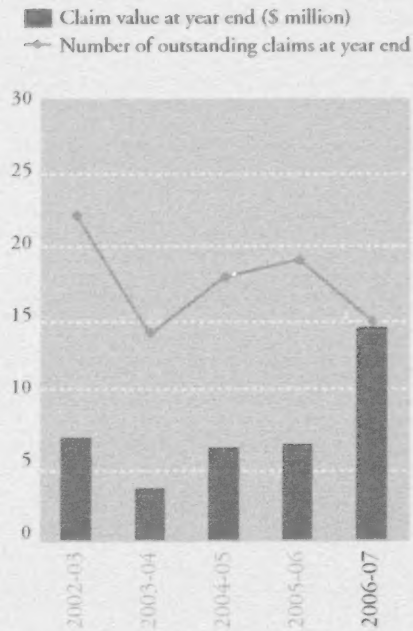
In 2004–05, there was a significantly higher rate of cost growth compared to past years. This can be explained by a single anomalous contract. Without that contract, for 2004–05, the cost growth would be recorded as 6.2% due to design changes, 3.6% as site conditions for a total of 9.8%. Although no formal targets are set for this indicator, DCC tracks this information to help keep the client informed, and to help the facility users manage any schedule risks associated with the construction.

DCC manages legal claims on behalf of the Department of National Defence. A direct indication of DCC's efforts to protect the interests of the Crown can be found in the dollar value of contract claims before the courts at any given time as illustrated in Figure 3. A balance must be struck between treating contractors fairly and ensuring the government receives fair value for contracted commitments.

The claim trend over the last several years as indicated in Figure 3 represents only contract claims filed in court. In 2006–07 DCC closed four claims that were settled for a total value of $265,500. As at March 31, 2007, there were 15 claims outstanding for a total value of $14,628,938. This is an increase of $8.6 million over last year. This significant increase is due to one specific claim of $9.1 million. Excluding this case, the outstanding claims at year-end are $5.5 million, an amount consistent with the trend of the past five years.

In accordance with the Memorandum of Understanding between the Corporation and DND, the settlements resulting from the resolution of any existing and future legal claims in respect of contractual obligations will be entirely funded by DND, in the year of settlement. Therefore, they do not have any financial impact on the Corporation.

FIGURE 3: LEGAL CLAIMS AT FISCAL YEAR END



In early 2007 the DCC Coaching Program was launched. This training and development initiative draws on internal expertise to provide new employees the support and guidance needed to be effective and efficient in their role.

CONTRACT EXPENDITURES 2006–2007 (ALL AMOUNTS ARE REPORTED IN $ THOUSANDS) – TABLE 3

	CONSTRUCTION CONTRACTS	PROFESSIONAL SERVICES	TOTAL
ATLANTIC CANADA			
Gagetown NB	34,701	2,130	36,831
Goose Bay NL	14,440	2,937	17,377
Gander NL	1,483	710	2,193
Greenwood NS	7,462	1,366	8,828
Halifax NS	13,902	2,126	16,028
Shearwater NS	20,017	1,105	21,122
Other	1,096	1,305	2,401
Subtotal	**93,101**	**11,679**	**104,780**
QUEBEC			
Bagotville QC	17,566	533	18,099
Montreal QC	9,605	980	10,585
Valcartier QC	27,589	2,936	30,525
Other	1,734	892	2,626
Subtotal	**56,494**	**5,341**	**61,835**
ONTARIO			
Borden ON	21,368	1,250	22,618
Kingston ON	7,309	775	8,084
Kingston (major) ON	18,470	2,704	21,174
London ON	8,302	305	8,607
North Bay ON	3,977	553	4,530
Ottawa ON	9,966	1,666	11,632
Petawawa ON	11,848	2,251	14,099
Trenton ON	14,103	1,502	15,605
Toronto ON	12,627	193	12,820
Subtotal	**107,970**	**11,199**	**119,169**
WESTERN CANADA			
Calgary AB	7,846	297	8,143
Chilliwack BC	1,145	36	1,181
Cold Lake AB	25,245	565	25,810
Comox BC	2,893	530	3,423
Edmonton AB	19,132	656	19,788
Esquimalt/FMF BC	27,576	3,874	31,450
Moose Jaw SK	5,828	127	5,955
Suffield AB	10,903	788	11,691
Shilo MB	3,175	744	3,919
Winnipeg MB	10,416	1,203	11,619
Wainwright AB	21,161	2,132	23,293
Yellowknife NWT	846	39	885
Subtotal	**136,166**	**10,991**	**147,157**
NORTHERN CANADA	**21,699**	**3,880**	**25,579**
OTHER	**1,354**	**8,862**	**10,216**
Totals	**416,784**	**51,952**	**468,736**

GOVERNANCE

Members of the DCC Board of Directors are appointed by the Governor-in-Council on the recommendation of the Minister of Public Works and Government Services, through whom DCC reports to Parliament. The Chair of the Board is separate from the CEO and the Board is able to operate independently of management. The Board has designated a lead director for governance issues in recognition of the vital importance of the Board's stewardship responsibilities. In addition, both the Chair and the CEO have participated in consultations carried out by the President of Treasury Board and the Treasury Board Secretariat (TBS) concerning proposed changes to governance practices. DCC will adopt any of the recommendations endorsed by the Treasury Board that will improve the Corporation's solid track record in this regard. The Board of Directors' current activities to safeguard the interests of the Corporation, its shareholders and stakeholders can be summarized under the following headings:

STRATEGIC PLANNING

The Board provides input to management on emerging trends and issues, and it reviews and approves the Corporation's strategic plans. Planning approval includes financial policies, budgets and expenditures. Strategic considerations also include succession planning for senior managers, including the CEO.

PERFORMANCE MONITORING AND EVALUATION

The Board monitors corporate performance against strategic and operational plans, ensuring that adequate management information is received and performance measures are in place. The Board assesses whether the Corporation's public policy objectives and statutory mandate are being fulfilled. The Board also monitors, evaluates and reports on the performance of the CEO. The Board does not formally assess the effectiveness of its own performance, or that of individual directors, although it will respond positively to the eventual direction by the Government in this regard if the government should decide to implement self-assessment procedures for Crown corporation Boards of Directors.

RISK MANAGEMENT

The Board understands the principle risks inherent in the corporation's activities and ensures that management exercises sound risk management. The adequacy and integrity of the internal control systems are verified by a robust audit regime that includes cyclical internal audits by an independent third party firm that is selected by, and reports directly to, the Audit Committee of the Board. With the assistance of the auditors, the Board is able to ensure the integrity of information systems and management practices. DCC employees are aware of their right to report questionable practices directly to the Board through the disclosure policy of the Code of Business Conduct.

COMMUNICATIONS

The Board undertakes effective communication with stakeholders including the Minister, senior management of the Corporation's client (DND and the CF), and with central government agencies and industry organizations. Through active, open communication the Board of Directors maintains an excellent working relationship with management.

Board Renewal and Development

The Board defined a profile of the skills, experience and competencies required to meet the governance requirements of a Crown corporation. This profile represents a balance of public and private sector talent, with experience in fields relevant to the Corporation's business, including engineering, construction, law, finance, general management and public administration.

There is a Nominating Committee that, through the Board, provides input to the Minister for the re-appointments of the President and Chief Executive Officer, the Chair, and for Board Members. In 2006–07 the Chair was reappointed for a term of one year to April 2008. Directors have ample opportunity for orientation and training in support of fulfilling their obligations as Board members.

Audit Committee

An audit committee is appointed by the Board of Directors to provide oversight in the supervision of the Corporation's internal operations, preparation of financial reports, internal audit system and implementation, and information disclosure, to ensure transparency and accuracy, and provide guidance for upholding values and ethics within the Corporation. In 2006–07, the *Financial Administration Act* was amended to state that members of the audit committee cannot be officers or employees of the Corporation.

Board of Directors – Remuneration – Table 4

Board Compensation	Appointees	Annual Retainer	Per Diem
Chair (Private Sector)	1	$7,500	$300
Private Sector Directors	5	$3,500	$300
Public Sector Directors	Vacant	None	None
DCC President and CEO	1	None	None
Vacancies	0	$0	$0

Board of directors – Attendance – Table 5

Meetings	No. Held	Public Sector Members	Private Sector Members	Combined
Full Board	3	100.0%	100.0%	100.0%
Audit Committee	2	100.0%	100.0%	100.0%

DCC BOARD OF DIRECTORS

At the end of 2006–07, the Honourable Michael M. Fortier, Minister of Public Works and Government Services announced three new appointments to DCC's Board of Directors. In addition, the term for the Chair, Mr. John McLure was renewed for one year.

CHAIR

Mr. John D. McLure
Mr. McLure is President of JDM Consulting Inc. and a senior associate at Hill and Knowlton Canada Limited. In 1975, he left the Canadian Forces to pursue a career with the federal public service. Mr. McLure served with Treasury Board of Canada Secretariat, the Department of Fisheries and Oceans, the Department of Regional Industrial Expansion, the Department of National Defence and the Department of Western Economic Diversification. He retired from the public service as a Deputy Minister in 1997, when he joined Hill and Knowlton. Mr. McLure earned a Bachelor of Science degree from the University of Manitoba in 1963, and studied at the Royal Military College of Science in England.

BOARD MEMBERS

Mr. T.L. (Lloyd) Callahan
Mr. Callahan of Kelowna, British Columbia, is President and CEO of Callahan Construction and brings extensive business management and construction industry experience to Defence Construction Canada. Previously, he has been Chairman of Montreal Trust and the British Columbia Advisory Board, and a past Director of Export Development Corporation, Labatt Breweries of British Columbia and Argus Industries.

Mr. Jean-Claude Garneau*
As President of Excotech, Mr. Garneau has used his expertise as a consultant for Hydro-Quebec and the Société d'énergie de la Baie James, among other clients. During his 35 years with Janin Construction, he was involved in numerous projects, where he acquired a solid reputation for his understanding of all aspects of the construction industry, particularly the complexity of large-scale projects. Mr. Garneau holds a Bachelor of Science (Civil Engineering) degree from McGill University.

Ms. Kris Matthews*
Ms. Matthews has served on many public, professional and not-for-profit boards. A business consultant, she is a senior principal in the Matthews Group LLP, serving businesses in Western Canada. She is both a Certified Management Accountant and Fellow in the national body for her contributions to her community, the society and profession. Her contributions include chairing the Alberta Society Board, serving on numerous committees, and chairing the Famous 5 Foundation. She is also a Certified Member of the Institute of Corporate Directors.

Mr. Ross Nicholls, P.Eng.
Mr. Nicholls joined DCC in 1978 and held a variety of engineering and management positions at the Corporation's site and regional offices in Atlantic Canada, Quebec and Ontario before being appointed to his current position of President and Chief Executive Officer in 1996. He holds a Bachelor of Science degree from Mount Allison University, as well as a Bachelor of Engineering (Civil) degree from the Technical University of Nova Scotia. He is a member of Professional Engineers Ontario, l'Ordre des ingénieurs du Québec, and sits on the Board of Trustees of the Canadian Mechanical Contracting Education Foundation and the Board of Directors of the Canadian Construction Innovation Council.

* Member, Audit Committee

The DCC Board of Directors as of March 31st, 2007: (Back row, from left) Mr. T.L. Callahan, Mr. Robert Presser, Mr. Ross Nicholls and Mr. Jean-Claude Garneau. (Front row, from left) Ms. Nancy Penner, Mr. John D. McLure (Chair) and Ms. Kris Matthews.

Ms. Nancy Penner
Ms. Penner has practised law for more than 20 years in the securities, oil and gas, and general corporate areas as partner and counsel in an Alberta law firm. She has served on the boards of directors of numerous public and private corporations and not-for-profit organizations and on the executive bodies of various industry organizations. Ms. Penner holds a Bachelor of Arts degree from the University of Manitoba and holds a Bachelor of Laws degree from the University of Calgary.

Mr. Robert Presser*
Mr. Robert Presser is Vice President of Marketing and Product Manager for Acme Engineering Products Ltd of Montreal. He holds an MBA from the Richard Ivey School of Business, and a Bachelor of Business degree from l'École des Hautes Études Commerciales at the University of Montreal. Mr. Presser has a background in the project management of mechanical, electrical and electronic engineering contracts with major international engineering firms, to wide scale human resource management, as well as expertise in developing corporate governance and merger and acquisition mandates for large Canadian corporations.

* Member, Audit Committee

MANAGEMENT APPLICATION OF RISK MANAGEMENT

Under the direction of the Board of Directors, senior management has established a comprehensive risk management framework within the Corporation's general management framework. The framework identifies the risks associated with DCC's environment and its main business activities, evaluates the probability and potential impact of risk occurrence, and defines mitigation measures to avoid or minimize the risk.

The framework is integrated into the Corporation's strategic planning process in a way that ensures high-risk areas receive special consideration in the planning exercise, particularly with respect to establishing priorities and allocating resources.

A Risk Management Committee consisting of the President and the three Vice Presidents leads the risk management exercise and establishes the overall risk mitigation strategy. The required actions associated with strategic risks are pushed down to the management group and onward through the organizational structure for implementation, along with the promotion of risk management awareness and guidance to all staff. In parallel, operational risks are identified at the working level and referred to more senior levels in the organization for guidance and management assistance as may be required.

Sound risk management practices are embedded in DCC's corporate culture; staff members are expected to identify risks and deal expediently with issues and problems.

DCC does a good job balancing the risks to the Corporation with the need to provide a high level of timely operational support to DND and the CF. DCC's risk management approach is characterized by having sound business process documentation, as well as effective and efficient levels of delegation of authority, supported by speedy communication up the chain of command.

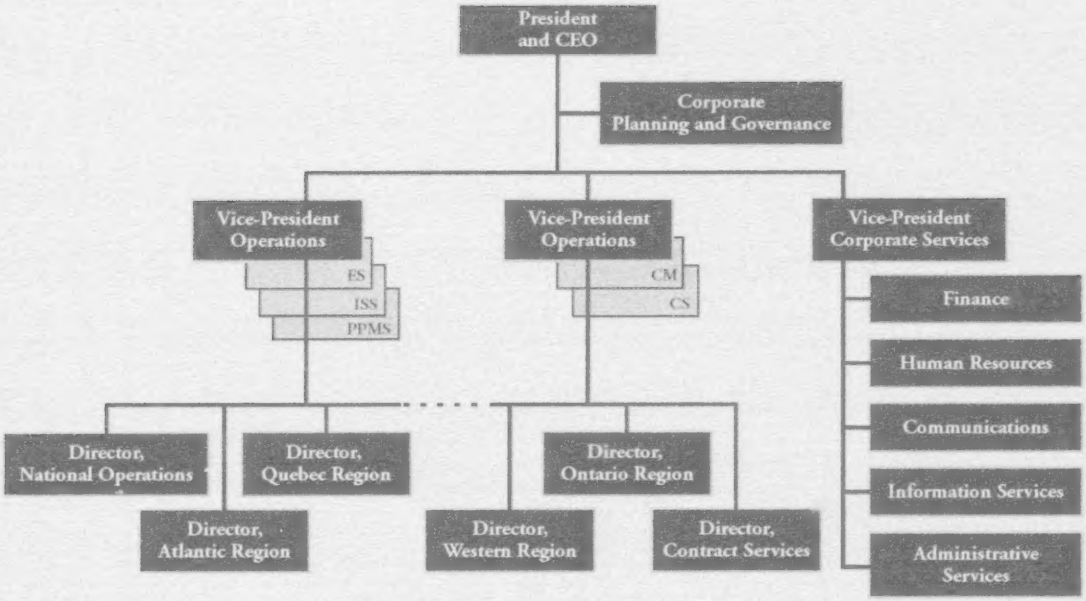
Although DCC is engaged in several potentially high-risk areas of business, such as procurement and contract management, the integrity of the Corporation's staff and businesses processes has not been questioned. One might credit this to sound internal control systems, which are essential management tools. However, the true basis of DCC's confidence in managing this risk lies in the sound values and ethics of the Corporation's employees. Leadership by the Board of Directors and senior management, and dedication and commitment from staff, has given DCC an exemplary reputation in both government and in industry. Senior managers personally expect employees to have real accountability for their actions, and employees expect the same of senior managers. There is zero tolerance in DCC for any unethical behavior.

ORGANIZATION

In 2006–07, the Corporation realigned its reporting structure to support the new service line management framework established in 2005–06. The President and Chief Executive Officer reports to the Board of Directors. DCC's executive consists of four officers: the President and Chief Executive Officer; two Vice-Presidents, Operations; and the Vice-President, Corporate Services, who is also the Chief Financial Officer and Secretary-Treasurer. The Operations Division includes site offices at all active CF establishments in Canada, which are managed by four regional offices (Atlantic, Quebec, Ontario and Western), as well as Contract Services and the National Operations Group at head office in Ottawa. In addition, DCC maintains seasonal remote offices in the Arctic, as required for the DEW Line Clean-up (DLCU) Project. As part of its support to CF operations deployed abroad, the Corporation currently has staff in Kandahar, Afghanistan, managed through the National Operations Group. The Corporate Services Division, located in Ottawa, provides all necessary business support functions to the Corporation.

Mr. Ross Nicholls, President and CEO, addressing staff at the National Awards Ceremony.

FIGURE 4: ORGANIZATION



The DCC Operations Division is jointly managed by two Vice-Presidents, Operations. One Vice-President has responsibility for business management activities in the Western Region, Ontario Region and Head Office Contract Services, as well as for development and oversight of the contract management (CM) and contracting (CS) service lines nationally. The other Vice-President has responsibility for business management activities in the Quebec Region, Atlantic Region and National Operations Group, as well as for development and oversight of the environmental (ES), project and program management support (PPMS) service lines nationally and the development of new practice areas through Infrastructure Support Services (ISS). Directors are jointly responsible to both Vice-Presidents for all business management and service line activities in their region or Head Office group.

Executive Team

MR. ROSS NICHOLLS, P. ENG.
PRESIDENT AND CHIEF EXECUTIVE OFFICER

Mr. Nicholls joined DCC in 1978 and held a variety of engineering and management positions at the Corporation's site and regional offices in Atlantic Canada, Quebec and Ontario before being appointed to his current position of President and Chief Executive Officer in 1996. He holds a Bachelor of Science degree from Mount Allison University, as well as a Bachelor of Engineering (Civil) degree from the Technical University of Nova Scotia. He is a member of Professional Engineers Ontario, l'Ordre des ingénieurs du Québec, and sits on the Board of Trustees of the Canadian Mechanical Contracting Education Foundation and the Board of Directors of the Canadian Construction Innovation Council.

MR. RONALD DE VRIES, P. ENG.
VICE-PRESIDENT, OPERATIONS

Since joining DCC in 1983, Mr. de Vries has led a variety of corporate and industry related initiatives, contributing to the development of DCC's service delivery capability and sound procurement practices. He has been involved in all aspects of DCC's business, from contracting and contract management to project management and environmental services. Mr. de Vries earned a Bachelor of Science (Civil Engineering) from Queen's University. He is currently active on several industry and government procurement committees.

MR. STEVE IRWIN
VICE-PRESIDENT, OPERATIONS

Mr. Irwin joined DCC in 2006 after a brief but influential period as CEO of the Canadian Forces Housing Agency. Mr. Irwin graduated from the Royal Military College in 1973 with a Bachelor of Engineering (Mechanical) degree. He served in many military engineer and army positions in Canada and abroad before ending his service at the rank of Brigadier General as the Chief Engineer at the Canadian Forces.

MR. ANGELO OTTONI, CA
VICE-PRESIDENT, CORPORATE SERVICES, CHIEF FINANCIAL OFFICER AND SECRETARY TREASURER

Mr. Ottoni joined DCC in 2001 and manages five departments, which are responsible for human resources, information services, finance, communications, and administration. Before joining DCC, he worked for nine years in the technology industry and for 15 years with a major international accounting firm. Mr. Ottoni earned a Bachelor of Commerce degree from Concordia University as well as a Public Accountancy diploma from McGill University. Mr. Ottoni received his Chartered Accountant Designation in 1978.

Members of DCC's executive group (from left): Mr. Ronald de Vries, Mr. Ross Nicholls, Mr. Angelo Ottoni, Mr. Steve Irwin.

Senior Management Team

MR. STEPHEN G. KARPYSHIN, P. ENG. DIRECTOR, WESTERN REGION

Mr. Karpyshin joined DCC in 1988 and was appointed Regional Director, Western Region, in 1998. Over the past 15 years, he has worked on such projects as the North American Air Defence Modernization project and the Infrastructure Reduction Program in Edmonton. Mr. Karpyshin graduated from the University of Manitoba with degrees in Physics and Civil Engineering. He is a board member of the Alberta Construction Tender System and a member of the Alberta Federal Council.

MR. MARC LANTEIGNE, P. ENG. DIRECTOR, QUEBEC REGION

Since joining DCC in 1988, Mr. Lanteigne has worked in every region on projects such as the construction of short-range radar sites in Labrador and he was the Area Engineer in the Western Region, prior to assuming responsibility for the Quebec Region in 2001. Mr. Lanteigne earned a Bachelor of Science in Engineering (Civil) degree from the University of New Brunswick. He is a member of l'Ordre des Ingénieurs du Québec and the Association of Professional Engineers and Geoscientists of New Brunswick.

MR. DAVID MCCUAIG, PMP, MPM DIRECTOR, NATIONAL OPERATIONS

Mr. McCuaig has been with DCC since 2000. His team of engineering, environmental and project management professionals oversees more than $50 million in construction and environmental projects annually. These projects include support to deployed operations and the DEW Line Clean-Up project. Mr. McCuaig has 20 years of experience in project management and construction with industry and government. He has taught project management and construction at the graduate college level. He has earned a Master of Project Management degree from the Université du Québec, and holds a Project Management Professional designation.

MR. RANDY MCGEE, P.ENG., GSC DIRECTOR, ONTARIO REGION

Originally with DCC from 1984 to 1998, Mr. McGee rejoined DCC in 2001 as the Western Area Engineer, after three years in the private sector running his own project management firm. He has extensive experience in managing construction and consultant projects as well as design-build and construction management projects. Mr. McGee earned a Bachelor of Science in Engineering (Civil) degree from the University of Manitoba, and is a Canadian Construction Association Gold Seal Certified Project Manager.

MR. GEORGE PLANK DIRECTOR, CONTRACT SERVICES

Mr. Plank's public service career began in 1979, in the procurement field with what was then the Department of Supply and Services. He subsequently held director positions at Fisheries and Oceans and at the Canadian Food Inspection Agency, where he managed a varied real property portfolio. Mr. Plank joined DCC in 2004 to manage the Contract Services Division and lead the national contracting service line. Mr. Plank holds a Bachelor of Mechanical Engineering degree from McGill University and a Master of Business Administration degree from the University of Ottawa.

MR. ROSS WELSMAN, P.ENG., PMP DIRECTOR, ATLANTIC REGION

Originally with DCC from 1983 to 1988, Mr. Welsman rejoined DCC in 2003 as the Area Engineer for the Atlantic Region, after 15 years in the private sector. During that time, he worked as a Project Manager in the heavy civil contracting and environmental remediation industries. Mr. Welsman has worked on a number of major DCC projects, such as the Long Range Radar Station in Cartwright, Labrador and the Jetty 8 Improvement Project in the Halifax dockyard. He earned both a Bachelor of Science in Mathematics degree and a Bachelor of Engineering (Civil) degree from Memorial University of Newfoundland, and holds a Project Management Professional designation. Mr. Welsman was appointed Regional Director, Atlantic Region, in 2006.

Human Resources

DCC acknowledges that its chief asset is people and that corporate success is built on employee ability and commitment. One of DCC's strengths is its dedicated workforce of professionals. The team consists of a mix of engineers, engineering technicians and technologists, environmental scientists and experienced tradespeople.

Other specialists in finance, human resources, information technology, communications and administration support these employees. Figure 6 describes the growth in the number of employees over the past five years. At year end, DCC had 543 employees. This compares to 483 employees at the end of 2005–06, 405 employees at the end of 2004–05, 348 employees at year end in 2003–04, and 280 in 2002–03. This represents a 13.0% increase in the employee base from last year, and nearly double in size from 2002–03.

DCC recognized 10 employees in 2006–07 with 10 years of service, six employees with 25 years of service, and one employee with 30 years of service.

Employees acknowledge that working for DCC is interesting, challenging and stimulating, and that there is a sense of mutual respect. Recruitment practices focus on engaging professionals who strive to maintain the Corporation's continued success and who take pride in achieving their personal goals.

Recruitment

DCC's internal career development practices helped 96 employees move further along their career paths through promotions, lateral transfers and relocations during the past year. Four employees volunteered for foreign deployment in Afghanistan; and 11 volunteered for northern assignments for DEW Line projects. When employees take advantage of the opportunity to work overseas or in the North, the Corporation and the employee all reap the benefits.

Figure 5: DCC Workforce

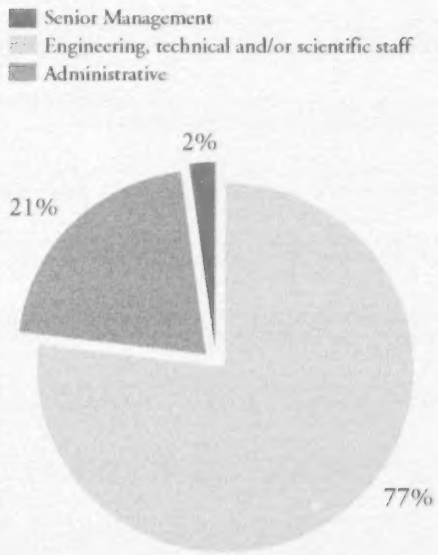


Figure 6: Employees at Year End

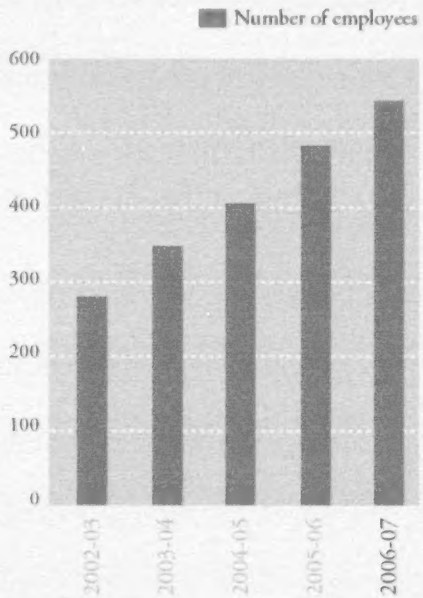


FIGURE 7: EMPLOYEE DEMOGRAPHICS

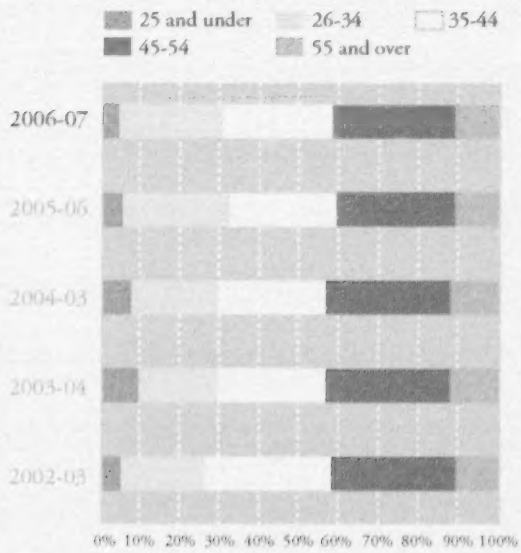
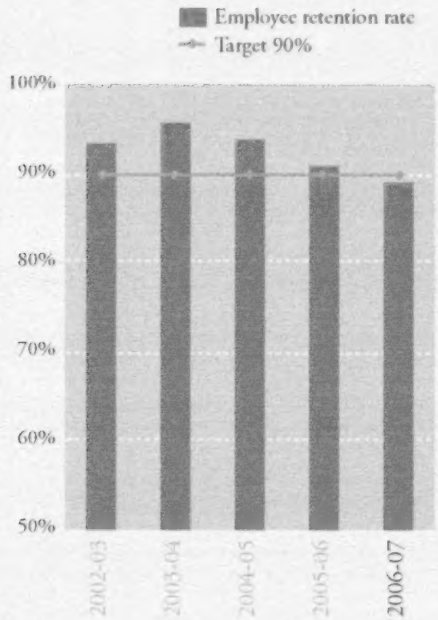


FIGURE 8: EMPLOYEE RETENTION RATE



The client also benefits from the transfer of DCC employee skills both to and from one of its operational theatres or remote sites where employees have the chance to hone their skills and test themselves. Throughout all of this interchange, the Corporation succeeds in expanding its collective base of knowledge and experience.

RETENTION RATE

As a knowledge-based company serving the Department of National Defence, DCC acknowledges that its chief asset is people. The Corporation's success depends on its ability to put the right people in the right place at the right time. To that end, the Corporation wants to ensure that it can recruit and retain the types of employees it needs in order to guarantee a high level of service to the client, and the annual retention rate is an important indicator for the Corporation.

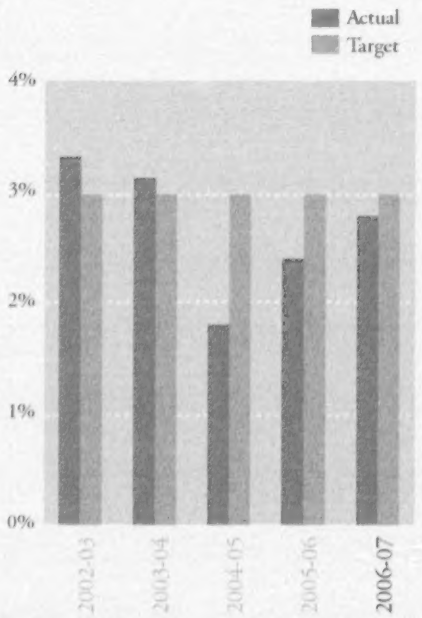
Given the nature of DCC's industry, there will always be a certain level of turnover of staff due to the seasonal and geographically cyclical nature of DCC's work. However, in 2006–07, the retention rate dipped slightly to 89.0% as compared to 90.6% in 2005–06, and 93.9% in 2004–05. A major factor affecting this indicator is labour market conditions in certain regions of the country, in particular the western provinces.

DCC views this rate as a measure of employee satisfaction with DCC's working environment, and the Corporation is monitoring this decrease and evaluating the reasons why people choose to leave the Corporation. Although the Corporation's ability to deliver service has not been compromised by the increase in this indicator, its long-term strategic initiatives of training and development and internal communications are designed to contribute towards its capacity as a model employer.

Professional Development to Salary Cost Ratio

On going training and development is given a high priority, as the Corporation's ability to serve its client is heavily reliant on the skills of its employees. Each year, the Corporation sets a spending target for training and development as a proportion of total salary costs. This indicator includes only the direct education costs, and not the associated disbursements or employee time. Typically, there has been a trend for DCC to surpass its spending target of 3.0% of employee salaries for this area. However, over the last three years, a portion of the allocation was redirected from direct training to the design and development of a comprehensive training and development framework. As a result, only 2.8% of the salary cost was spent on training in 2006–07 per employee, as compared to 2.4% in 2005–06, and 1.8% in 2004–05. As this initiative is maturing and in-house training modules are being rolled out, it is anticipated that training and development expenditures will return to the target levels of 3.0% in the next fiscal year.

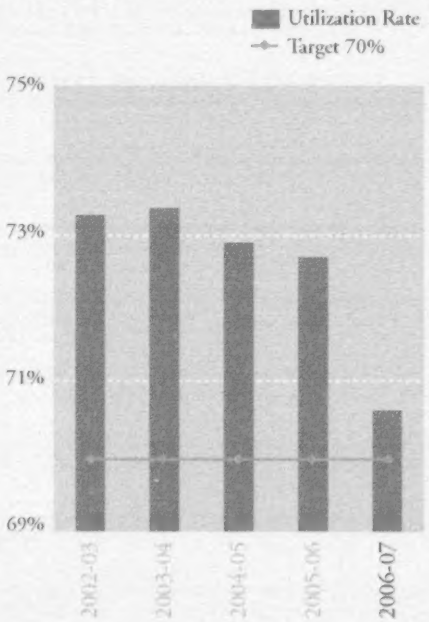
Figure 9: Professional Development to Salary Cost Ratio



Utilization Rate

The utilization rate is an important performance indicator as well as a key financial management tool. It indicates the hours spent on contract related functions as opposed to non-billable overhead functions. In 2006–07, the utilization rate was 70.6%, remaining within the target of 70.0%. This is a slight decrease from last year's rate of 72.7%. To manage risks associated with company growth and to implement improvements to the service delivery structure, resources were allocated to these non-billable areas in 2006–07. Over the previous four years, the rate had remained fairly consistent while the employee population was increasing by 81.0% between 2001–02 and 2005–06.

Figure 10: Utilization Rate
Percentage of employee hours spent on client contract work

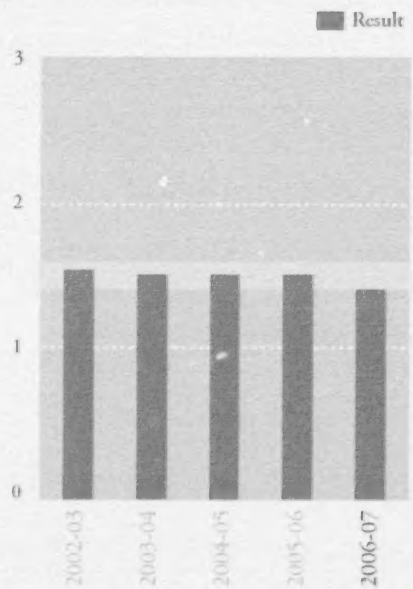


Direct Personnel Expense Multiplier

The Direct Personnel Expense Multiplier (DPEM) is the factor by which DCC multiplies direct project personnel expenses to recover overhead costs. Direct project personnel expenses include salary costs, payroll benefits and compensated absences, such as vacation, sick days, holidays and professional development time. This multiplier is used as a guideline to establish billing rates for DCC services. The target range for this indicator is 1.50 to 1.60. Fluctuations in the actual multiplier from period to period are the results of the application of the company's financial management policy. The policy is to generate sufficient cash to meet its anticipated operating and capital requirements and settle its financial obligations as they become due, and to ensure that adequate operating contingency funds are available to account for fluctuations in the program funding and implementation. Consistent with this policy, at times, the DPEM can be lowered below the target range in order to return surplus funds back to DND.

DCC billing rates have remained unchanged for the last three years in order to manage operating results and return a surplus realized in 2005–06 back to the client. This in turn caused the DPEM to decrease by 6.0% from the previous year to 1.43 and go below the Corporation's normal target range.

FIGURE 11: DIRECT PERSONNEL EXPENSE MULTIPLIER



Awards And Recognition

DCC proudly recognizes the following employees for their exceptional contribution to achieving corporate goals.

NATIONAL AWARDS 2006–07

President's Award for outstanding service to the Corporation performed consistently over time in a manner above and beyond normal work requirements.

Mr. Ian Ashton, Manager, Site Operations
Borden, Ontario

Mr. Ashton has been working for DCC since the early 1980's and has held various positions over the years, ranging from Project Engineer at CFB Toronto to Director, National Operations at Head Office in Ottawa. He is well regarded as a leader and a mentor to employees, and has demonstrated dedication throughout his career to the client, his staff and to the entire Corporation.

Service Development Award for employee performance in the development or promotion of services that respond appropriately to client requirements and for contributing to the service delivery team.

Mr. Hans Gartner, Manager,
Projects and Programs
Ottawa, Ontario

Mr. Gartner has been instrumental in developing the Project and Program Management Support (PPMS) Service Line. He is a high-energy individual who works tirelessly to fulfill client requirements and for developing a strong and knowledgeable team. The PPMS service line accounts for 19.0% of DCC service revenue as compared to 14.0% for 2005–06, and 10.0% in 2004–05.

Customer Satisfaction Award for exemplary contribution by an employee consistently over a period of time to customer service

Linda Wolfe, Administrative Assistant
Trenton, Ontario

Since joining DCC in 1999, Ms. Wolfe has become an integral part of the day-to-day activities of the Trenton Site Office. More than 40 customers, including DND clients, DCC employees and contractors, provided strong testimonials in support of her nomination for this award. She is an asset to DCC's service delivery capability.

At DCC's National Awards ceremony, Austin Baird, Environmental Program Manager for National Operations Group, received the Vice-President's Award. Mr. Baird, works at the UXO Legacy Sites Office and has demonstrated time and again the type and quality of work valued by the Corporation. Presenting the award, at left, is Ron de Vries, Vice-President, Operations.

Employees from the Ontario Region received an impressive number of awards at the National Awards Ceremony. Ian Ashton, Manager, Site Operations at CFB Borden, was presented with the President's Award and Linda Wolfe, Administrative Assistant at CFB Trenton, received the Customer Service Award. Chris Davis, Manager, Contract Services, Marisa Girard, Administrative Assistant, and Rose Montgomery, Administrative Assistant, accepted the Service Innovation Award on behalf of the Ontario Region. Mr. Davis also received a Long Service Award for his 10 years of service with the Corporation.

Back row, from left: Ian Ashton, Chris Davis and Rose Montgomery. Front row, from left: Marisa Girard, Linda Wolfe and Coleen Purdey-Morrison, Contract Coordinator at CFB Trenton Site Office.

Service Innovation Award recognizing employee contributions towards achieving the Corporation's goal of providing innovative, value added solutions to either an internal or external client.

Ontario Region
Chris Davis
Manager, Contract Services

and

Marisa Girard
Administrative Assistant

and

Rose Montgomery
Administrative Assistant

Over the past year, this team at the Ontario Regional Office has encouraged their region to embrace new technologies, such as a voice over Internet protocol (VoIP) phone systems, electronic signature pads and the standardization of the sites' shared drives, in order to reduce costs, save time and preserve the environment by using less paper.

Robert Graham Memorial Award
Recognizing a special contribution to the improvement of work place safety or environmental protection.

Mr. Shawn Bindon,
Manager, Military Operations Support
Ottawa, Ontario

Since his time with DCC, Mr. Bindon has led several major environmental initiatives, both on the local and the corporate level. DCC's environmental management framework, which was fully implemented in 2006–07 was developed and spearheaded by him. When it comes to environmental issues, he is regarded as someone who is dedicated to these causes both on a professional and a personal level.

GENERAL SERVICE MEDAL

The General Service Medal (GSM) is awarded to members of the Canadian Forces (CF), members of allied forces serving with the CF, and to Canadian citizens other than members of the CF, who deploy outside of Canada — but not necessarily into a theatre of operations — to provide direct support, on a full-time basis, to operations in the presence of an armed enemy.

DCC is proud of its employees who accepted the challenge of serving Canada and DND's deployed operations. In 2006–07, one employee received the General Service Medal for serving as a project support office for the Kandahar Provincial Reconstruction Team (KPRT), at Camp Nathan Smith, Afghanistan.

André Sirois
Project Support Officer
Ottawa Head Office
Operation Athena
Roto 2

Update on Strategic Initiatives

DCC's planning and reporting process uses a thematic approach in order foster continuity in all plans and reports and to make it simpler to track corporate achievement. As outlined in DCC's Corporate Strategic plan for 2006–07 to 2010–11, the four strategic planning themes are corporate governance and leadership, service delivery, managing stakeholder relationships, and corporate support and organizational capability. All initiatives in the strategic corporate plan and individual business plans can be categorized within these areas, and success in each of these themes supports the Corporation's overall strategy. At the yearly planning session, the organization and applicability of these strategic themes are reviewed as a regular part of the corporate planning process.

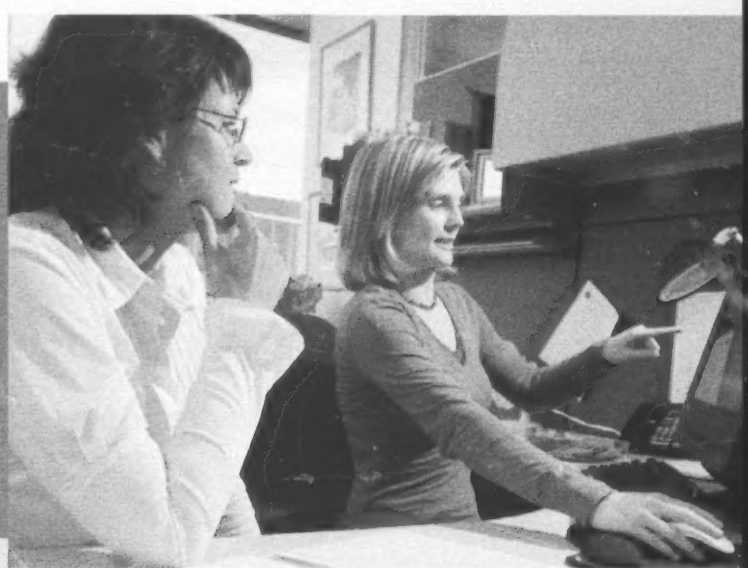
Governance and Leadership Initiatives

Under the planning theme of corporate governance and leadership, several initiatives in the areas of employment equity, official languages, environmental stewardship, contractor safety, and training and development were highlighted last year.

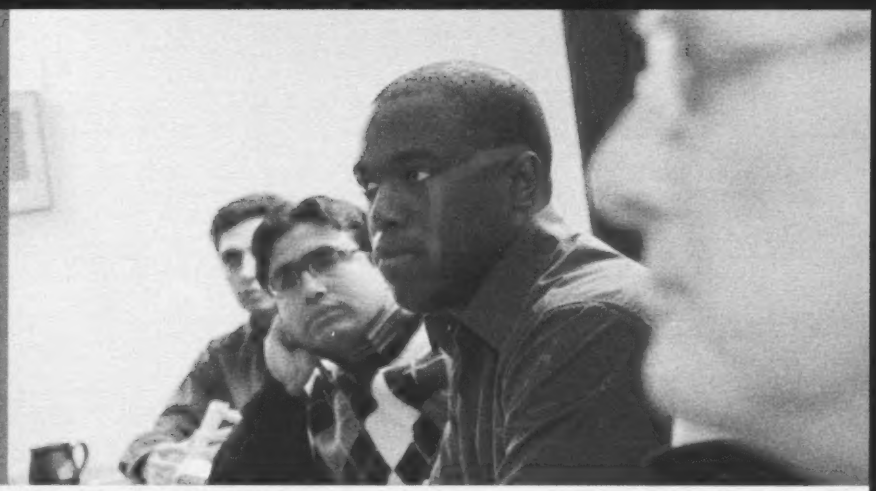
The Corporation strives to comply fully with the *Employment Equity Act* and the *Official Languages Act.*

In some situations full compliance is a challenge due to DCC's specialized job requirements and the geographic barriers to workforce mobility.

In 2006–07, DCC committed to reviewing the way that it targets and attracts new employees to the organization. As a supporter of employment equity, DCC undertook a study in the first half of the year to determine how it can better reach



Training and development is an important initiative for DCC. In this picture, Michelle Hoffe (right), Technical Advisor for the Training and Development team, explains the new Employee Coaching Program to Josée Champagne, Contract Services Officer with the Contract Services Division at Head Office.



under-represented groups so that the DCC employee population reflects the profile of the Canadian population. By year-end, new tools had been developed and adopted by the human resources department and hiring managers, and new avenues for recruiting diverse groups of people. Work in this area is on going and regional business plans take into account support for the principles of employment equity. Although this is a challenge given DCC's very specific areas of work, progress continues each year for DCC in meeting its employment equity objectives.

At the same time, DCC engaged Statistics Canada to carry out assessment and demand surveys at several work site locations to validate the need for service in each of Canada's official languages by DCC's public. Although the final report was not completed at the end of 2006–07, DCC is prepared to act on any of the recommendations that will help support the principles of the *Official Languages Act*. According to a letter received from the Public Service Human Resources Agency for 2006–07, DCC is successfully meeting its obligations under the *Official Languages Act*.

Environmental stewardship is a key component of good corporate governance. The DCC Environmental Management Framework, launched in May 2002, was a multi-year plan designed to ensure environmental considerations were incorporated into day-to-day business and administrative activities. Last year, DCC committed to furthering the Corporation's environmental stewardship goals, such as refining the definition of roles and responsibilities related to green office practices.

The Corporation has carried out the actions designed to realize these goals, and business unit plans for 2007–08 will include specific actions to further these goals.

As the Government of Canada reviews the governance regimes for Crown corporations, DCC's Board remains active in monitoring the impacts of this important initiative and oversees all changes required of the Corporation to date. Last year, changes have included updating DCC's charters to reflect redefined roles and responsibilities for the Board and its committees. Also, the Corporation updated its Code of Business Conduct to reflect newly identified requirements.

With the safety program for DCC employees well established, DCC reviewed the safety management program as it relates to operational activities. In the first half of 2006–07, DCC and DND initiated a comprehensive review of on-site safety management processes. In partnership with DND, a document entitled *A Guide on the Safety Responsibilities of DND and the CF in Relation to Contractors* was issued and reaffirms such issues as the accountability structure on site for safety.

As part of DCC's training and development initiative, and in keeping with the Corporation's commitment to an ethical workplace, the Corporation launched a new mandatory *Values and Ethics in DCC* on-line training course. This employee training focuses on ethical principles and decision-making, and all DCC employees completed the course by the end of 2006–07.

Because the Corporation is growing so rapidly, the way information travels throughout the organization is increasingly important. Last year, the Corporation committed to developing an internal communications strategy. The objective of this strategy is to establish mechanisms that ensure the flow of information throughout the Corporation, as the numbers of employees and services grow. At year-end, an internal communications statement of strategy and an internal communications plan was released. The focus is on developing the communications capability of DCC's management cadre.

Service Delivery Initiatives

Given DCC's mission to deliver high-quality, timely and efficient services to DND, achieving excellence in service delivery remains at the forefront of DCC's corporate strategy. The strategic objective for this theme is to ensure client requirements are met. Ultimately, DCC's goal is to provide the infrastructure solution that DND and the CF require—for example, to finish a building or to remediate environmental contamination. To do this, DCC tailors its services and deliverables so that it can effectively meet the scope, quality and schedule requirements of projects and programs.

In 2006–07, DCC identified two corporate initiatives related to service delivery. The Corporation committed to conducting an internal compliance review. For the past several years, the contract management and contracting service lines have used an internal compliance review process as part of their quality assurance program. For the contracting service line, this process was vital to maintaining ISO 9001 certification. In 2006–07, the compliance review process was extended to both the environmental and project and program management support service lines, and it is now being used nationally.

The second initiative focused on the evolution of the system that DCC has put in place for delivering service to the client, and focused on the leadership of DCC service lines. DCC evaluated the progress of this new initiative, particularly the progress on the rollout of the environmental and project and program management support service lines. National and regional leadership, policies, procedures and quality assurance models are now in place. Currently, efforts to initiate a new infrastructure support service line will be limited to developing several practice areas.

Stakeholder Relationships Initiatives

DCC's success is based, in part, on the Corporation's efforts to build and maintain a solid rapport with industry, government and client organizations. This conscious strategy goes beyond the basics of just doing good work and getting

Ron de Vries (left), Vice-President, Operations, presented Michael Atkinson, President of the Canadian Construction Association (CCA), with the Friend of DCC Award, on January 20th, at a reception held in his honour. The event marked Mr. Atkinson's 25-year career milestone with the Association.

The Friend of DCC Award was created to highlight the contributions of persons or groups who have a recognized working relationship with DCC, who have collaborated on projects that have resulted in mutual success, and that demonstrate characteristics that make them a valuable partner to work with.

results, to creating goodwill and relationships that have long-term benefits in the communities where DCC operates.

DCC believes strongly in supporting and participating in industry associations, an approach that has positive repercussions for both sides. It gives both industry groups and the Corporation the opportunity to share business practices and procedures. DCC can keep in touch with trends in the marketplace, and the needs of contractors and consultants, while industry can see that working with DCC is a doorway to opportunity.

In working with DND and the CF, the Corporation pursues the role of a partner. In the end, both DND and DCC seek the same goal in this regard: to leverage the industry's capacity in order to meet requirements quickly, effectively and efficiently. Rather than simply delivering successful results on a job-by-job basis, DCC has committed significant time and resources to integrating its planning and decision-making with those of DND as DND seeks state-of-the-art solutions to its infrastructure needs.

Equally important is the Corporation's relationship with the government and its departments. Employees throughout DCC maintain regular contact with government organizations that have an interest in DCC's policy development, service delivery or information-sharing activities. As an agent of the Crown, DCC is accountable to the Minister of Public Works and Government Services, and, overall, to Parliament and the people of Canada. Simply, one can say that the Corporation works to deliver the best, most cost-effective work, and that it interacts with its stakeholders equitably and reasonably. The strategic objective for this theme, which relates to all stakeholders and reflects the Corporation's true intent, is to be recognized for the Corporation's competence and value.

Traditionally, DCC's relationships with the construction sector have been very strong. As DCC's involvement in other services has grown over the past several years, the Corporation has identified a need to strengthen its relationships with industry representatives outside the construction sector, such as people in the environmental and project management fields. DCC has concluded that these industries do not have single representative organizations; therefore, the Corporation will continue to build relationships on a more ad-hoc basis, based on service line and regional needs.

Corporate Support and Organizational Capability Initiatives

DCC's internal administrative ability touches all aspects of the business and is the key to success in maintaining high-quality service to DND. DCC's administrative structure and systems are geared entirely to helping employees meet the client's requirements every day. To that end, the strategic objective for this theme is to support service delivery capability. Without high-quality corporate support systems, DCC business units would not be able to perform their functions effectively. These systems include finance, information services, human resources, administration, corporate security and communications. The Corporate Services Division at head office provides most of these functions. However, both line and service line management also actively support service delivery.

Last year, the major initiative focused on the development and implementation of the Information Services (IS) Roadmap. The IS Roadmap is a multi-year plan to enhance corporate information systems and technology, to renew IS support capacities and to transform the service delivery model of the IS Department through closer working relationships with other DCC business units. In 2005–06, the IS Department enhanced and upgraded the Corporation's enterprise system, and examined new options for a human resources information system (HRIS). During 2006–07, the IS Department made progress in implementing the first phase of the HRIS system and hired additional staff to enable the new service model.

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL PERFORMANCE

FINANCIAL MANAGEMENT POLICY

The Corporation's financial management policy and financial statements assume that the Corporation is a going concern and its stated mandate will continue for the foreseeable future.

The Corporation's financial management policy is to generate sufficient cash to meet its anticipated operating and capital requirements and settle its financial obligations as they become due. In determining the amount of cash reserves carried for operating needs, the Corporation considers the risks inherent in its operations, particularly the risks associated with potential and unanticipated changes to the amount or timing of construction project expenditures on the part of its client, the Department of National Defence. To fulfill its mandate and remain ready and able to serve its client at all times, the Corporation must constantly react to changing business conditions and be able to financially support and sustain its operations when sudden or unanticipated business changes occur. As a result, the Corporation allows for reasonable levels of operating contingencies in determining the amount of cash reserves it carries. Management constantly monitors and reviews cash levels to determine their appropriateness. Any surpluses or shortfalls that may occur occasionally are taken into consideration in formulating future business plans. In particular, cash surpluses judged to be in excess of operating requirements are returned to the client through the setting of billing rates for future services.

FISCAL 2006–2007 COMPARED WITH FISCAL 2005–2006

SERVICES REVENUE – TABLE 6

Overall, services revenue increased in the year ended March 31, 2007, by $5,345,000 or approximately 13.0% over the previous fiscal year. Since billing rates remained constant from year to year, the increase is attributable primarily to the increase in business volume, which accounted for approximately 11.0% of the increase. The remainder of the increase is attributable to a combination of factors, including a change in the mix of billable resources used and the effect of certain fixed fee arrangements.

SERVICES REVENUE ($000'S) – TABLE 6

SERVICES REVENUE	2006–07		2005–06		VARIANCE	
Contract management	$24,943		$24,994		$(51)	0%
Contracting	4,879		4,071		808	20%
Construction and contracting services	29,822	62%	29,065	68%	757	3%
Environmental services	7,163		5,509		1,654	30%
Project and program management	9,014		5,811		3,203	55%
Infrastructure support services	1,827		2,096		(269)	-13%
Related services	18,004	38%	13,416	32%	4,588	34%
	$47,826		**$42,481**		**$5,345**	**13%**

INTEREST REVENUE – TABLE 7

2006–07	2005–06	VARIANCE	
$265	$164	$101	62%

Although the Corporation experienced a 13.0% overall increase in services revenue, revenue from related services grew at a faster rate of 34.0%. This rise resulted in a decrease in the percentage of total revenue generated from construction and contracting services to 62.0% in the year ended March 31, 2007, compared to 68.0% in the previous fiscal year, and an increase in the percentage generated from related services to 38.0%, from 32.0% in the previous fiscal year. Some of the revenue fluctuations simply reflect cyclical variations in demand related to the client's program implementation. Notably, revenue from project and program management services increased by 55.0% and revenue from environmental services rose by 30.0%. Both of these increases outpaced the overall services revenue increase of 13.0%. On the other hand, infrastructure support services revenue decreased by 13.0% reflecting a decreased demand for services in this service line that includes revenue from energy performance, facilities management and facilities decommissioning services.

Revenue from contract management remained virtually unchanged from the previous year and is consistent with the marginal change in the client's contract expenditures that increased by 5.0% during the past year. Other factors that affect contract management revenue include the variation in the nature and size of individual construction projects from year to year and the level of effort required in managing them.

Contracting services revenue increased by 20.0%. This increase is primarily related to the client's increased demand for value added services related to contracting as well as factors such as the variation in the size and complexity of contracts tendered from year to year and the level of effort required to award them.

Interest Revenue – Table 7

Interest revenue, which is generated from the Corporation's average current account bank balance, increased in the year ended March 31, 2007, by $101,000 or approximately 62.0% over the previous fiscal year. This significant increase is due to a combination of higher average monthly cash balances during the fiscal year, as well as increases in the average interest rate from 2.8% in the previous year to 4.1% in the year ended March 31, 2007. At the same time the average cash balance increased from $5.6 million during fiscal 2005-06 to $6.4 million during the past fiscal year.

Salaries and Employee Benefits – Table 8

Salaries increased in the year ended March 31, 2007, by $5,291,000 or approximately 19.0% over the previous fiscal year. This increase is attributable to a combination of higher levels of staff and staff mix, which accounted for a net increase of approximately 13.0%; inflationary and performance-based salary increase which accounted for about 4.0% and certain salary adjustments which were made at the start of the fiscal year as a result of a compensation review that was conducted late in fiscal 2005–06. This accounted for about 2.0% of the increase. The compensation surveys were conducted in conjunction with a project that was undertaken in fiscal 2005–06 to revise the Corporation's job classification system in an effort to remain competitive in the labour market.

Employee benefits increased in the year ended March 31, 2007, by $1,991,000 or approximately 27.0%. This increase is partially related to the increase in salaries discussed above (19.0%). Other factors that contributed to the increase included an increase in pension contributions paid by the Corporation, due to an increase in the employee contribution rate during the year and as

Salaries And Employee Benefits ($000's) – Table 8

	2006–07	2005–06	Variance	
Salaries	33,136	$27,845	$5,291	19%
Benefits	9,456	7,465	1,991	27%
	$42,592	**$35,310**	**$7,282**	**21%**
Benefits as a percentage of salaries	28.5%	26.8%	1.7%	

OPERATING AND ADMINISTRATIVE EXPENSES ($000'S) – TABLE 9

	2006–07	2005–06	VARIANCE	
Rent	$1,258	$1,028	$230	22%
Employee training and development	916	668	248	37%
Professional services	743	580	163	28%
Telephone and communications	688	577	111	19%
Office supplies and equipment	479	409	70	17%
Travel	463	455	8	2%
Staff relocation	268	386	(118)	-31%
Computer software and equipment	167	70	97	139%
Software maintenance	135	151	(16)	-11%
Leased office equipment	119	114	5	4%
Communications	118	113	5	4%
Recruiting costs	100	161	(61)	-38%
Other overhead expenses	391	396	(5)	-1%
	$5,845	**$5,108**	**$737**	**14%**

a result of one-time payments made for the buy-back of pensionable service by certain employees. The cost of providing heath care benefits to staff and the amount expensed for employee future benefits also increased. These factors contributed to the increase of the ratio of employee benefits to salaries by 1.7% to 28.5% for the year ended March 31, 2007, compared to 26.8% for the previous year.

OPERATING AND ADMINISTRATIVE EXPENSES – TABLE 9

Operating and administrative expenses for the year ended March 31, 2007, increased by $737,000 or approximately 14.0% over the previous fiscal year. The increase in rent expense of approximately 22.0% is attributable to additional office space procured at regional and head office locations to accommodate growth in personnel. Employee training and development costs increased by approximately 37.0%. As a percentage of salary costs, employee training and development was 2.8% in 2006–07 compared to 2.4% in the previous year. In 2005–06, management directed some of the training and development budget towards developing in-house training courses as part of a corporate initiative. In 2006–07 spending on training and development was more in line with the company's normal spending target of 3.0% of salary costs.

Professional services costs increased by approximately 28.0%, due primarily to increased spending on consulting services relating to the company's Enterprise Resource Planning (ERP) system, JDE One World, for system upgrade and development work that was carried out during the year. In addition, a consultant was hired to carry out an assessment of the human resources function in the company and another consultant was hired to perform an assessment of demand at certain company locations as part of the requirements under the *Official Languages Act*.

Telephone and communications costs increased by approximately 19.0% due to the increase in business activity and the introduction of faster, but more expensive, data communication lines in certain company locations. Costs for office supplies and equipment increased by 17.0%, due to a combination of inflation and growth in business activity.

Staff relocation costs decreased by approximately 31.0% over the previous fiscal year as fewer relocations took place in 2006–07 compared to the previous year. Computer software and equipment increased 139.0% due to higher spending on certain application software upgrades and purchases and on computer parts and accessories. Software maintenance costs decreased by 11.0%, due primarily to the discontinuance of maintenance on some older software applications. Recruiting costs decreased by 38.0%, due to the decrease in the level of new hires in fiscal 2006–07 compared to the previous year and a reduction in recruiting costs for executive level personnel.

NET (LOSS) INCOME ($000'S) – TABLE 10

	2006–07	2005–06	VARIANCE	
Net (Loss) Income	$(1,227)	$1,458	$(2,685)	-184%

NET (LOSS) INCOME – TABLE 10

The loss for the year ended March 31, 2007 was $1,227,000 compared to a net income of $1,458,000 in the previous year. The loss is the result of the Corporation's financial management policy that is to return surpluses judged to be in excess of operating requirements. As such, given the net income realized in 2005–06, the Corporation decided to keep billing rates for 2006–07 constant with those in 2005–06 and thereby creating the loss. In addition, The Corporation experienced an increase in its overhead salary costs during 2006–07 due to the addition of administrative resources to support its growth and for service development activities to enhance service offerings and delivery.

CAPITAL EXPENDITURES – TABLE 11

The Corporation's capital expenditures for the fiscal year ended March 31, 2007, totaled $993,000, representing an increase of 33.0% from the previous year. The significant increase in software is due to purchase and implementation costs associated with the new Human Resources Information System (HRIS) which began in 2006–07 and is still underway. Furniture and equipment expenditures increased by 33.0% in response to staff growth. The 30.0% decrease in leasehold improvement costs is due to the reduction in office fit up costs that were incurred in 2006–07 compared to the previous year.

CAPITAL EXPENDITURES ($000'S) – TABLE 11

	2006–07	2005–06	VARIANCE	
Software	$251	$46	$205	446%
Computer equipment	376	368	8	2%
Furniture and equipment	279	209	70	33%
Leasehold improvements	87	125	-38	-30%
	$993	**$748**	**$245**	**33%**

LIQUIDITY AND CAPITAL RESOURCES – TABLE 12

The cash balance at March 31, 2007, increased by 8.0% over the previous year. During fiscal 2006–07, the Corporation generated $1,543,000 ($2,891,000 in the previous year) in cash from operating activities and spent $993,000 ($748,000 in the previous year) on capital expenditures, producing an overall increase in cash of $550,000 ($2,143,000 in the previous year). In accordance with its financial management policy, the Corporation maintains sufficient cash to meet its anticipated operating and capital requirements and to settle its financial obligations as they become due. Any cash surpluses or shortfalls are taken into consideration in formulating future business operating plans. In particular, surpluses judged to exceed operating requirements are returned to the client through the setting of billing rates for future services. The Corporation has no segregated cash reserves. Cash that exceeds short-term operational requirements is invested in accordance with the investment policy approved by the Board of Directors.

There was no major fluctuation in due from related parties in spite of the increased revenues. This was due to a reduction in the average number of days that accounts were outstanding which was 42 days at March 31, 2007 compared to 46 days in the previous year.

The increase at March 31, 2007, in current liabilities of $577,000 or 13.0% compared to the previous year is primarily attributable to two factors: the higher level of business activity, which increased payables relating to operating costs; and the growth in personnel, which increased payroll-related liabilities.

Other factors that affect this balance from year to year include the amount of the current portion of employee future benefits, and the timing of expenditure incurrence and payment.

LIQUIDITY AND CAPITAL RESOURCES ($000's) – TABLE 12

	2006–07	2005–06	VARIANCE	
Cash	$7,845	$7,295	$550	8%
Due from related parties	$7,351	$7,212	$139	2%
Current liabilities	$5,122	$4,545	$577	13%

PROVISION FOR EMPLOYEE FUTURE BENEFITS – TABLE 13

The Corporation records a liability for the estimated cost of severance, including health care benefits for its retirees. This estimate is actuarially determined. The accrued severance and other benefits balance as at March 31, 2007, increased by $1,422,000 or approximately 21.0% (23.0% in the previous year) over the previous fiscal year. The balance increased by the amount of benefits accrued in the current fiscal year of $1,782,000 ($1,395,000 in the previous year) and decreased by the amount of benefits paid in the current fiscal year of $360,000 ($90,000 in the previous year). The provision for employee future benefits fluctuates from year to year due to a combination of factors, including the inflation rate, workforce changes, changes in the discount rate (which is determined by reference to market interest rates), changes in the average rate of salary increases, and changes to the average expected remaining service lifetime of active employees, due to the changing demographics. Note 4 to the financial statements describes the actuarial assumptions used in determining the provision. This liability is primarily long term in nature and the Corporation estimates the current payout amount based on the best information available. Although the Corporation has not specifically segregated funds for this obligation, it has sufficient capital resources to meet its employee future benefit payment obligations as they become due.

PROVISION FOR EMPLOYEE FUTURE BENEFITS ($000's) – TABLE 13

	2006–07	2005–06	VARIANCE	
Total provision for employee future benefits	$8,313	$6,891	$1,422	21%
Less: current portion	237	329	(92)	-28%
Long-term portion	$8,076	$6,562	$1,514	23%

FISCAL 2006–2007 ACTUAL RESULTS COMPARED TO PLAN ($000's) – TABLE 14

	ACTUAL	PLAN	VARIANCE	
Revenue				
Services	$47,826	$47,657	$169	0.4%
Interest	265	126	139	110%
	48,091	**47,783**	**308**	**1%**
Expenses				
Salaries and employee benefits	42,592	40,622	1,970	5%
Operating and administrative	5,845	6,401	(556)	-9%
Amortization of capital assets	881	932	(51)	-5%
	49,318	**47,955**	**1,363**	**3%**
Net income	**$(1,227)**	**$(172)**	**$(1,055)**	**613%**
Capital expenditures	**$993**	**$1,166**	**$(173)**	**-15%**

FISCAL 2006–2007 ACTUAL RESULTS COMPARED TO PLAN – TABLE 14

The 2006–07 to 2010–11 Corporate Plan Summary (the Plan) was tabled in the House of Commons in summer 2006.

Table 14 indicates the Corporation's actual performance for fiscal 2006–07 compared to the projections in the Plan. Services revenue was consistent with the projections in the Plan. Interest revenue, which is generated from the Corporation's average current account bank balance, was $139,000 or 110.0% above Plan. This variance is due to a combination of higher average cash balances and higher than expected average interest rates during the year.

Salaries and employee benefits were $1,970,000 or 5.0% higher than Plan. This increase is largely the result of a combination of higher than planned staff growth and higher increases in salaries and benefits. Operating and administrative expenses were $556,000 or 9.0% lower than Plan. This variance is due primarily to the lower than- expected spending on relocation, rent, and training and development, compared to planned amounts.

Amortization of capital assets was $51,000 or 6.0% lower than Plan. This variance is the result of the lower level of capital expenditures compared to Plan.

Capital expenditures were $173,000 or 15.0% lower than Plan. This decrease is due to lower-than-expected spending for computer software.

FIVE-YEAR SUMMARY FINANCIAL INFORMATION ($000's) – TABLE 15

	2006–07	2005–06	2004–05	2003–04	2002–03
Revenue					
Services	$47,826	$42,481	$34,641	$29,417	$24,422
Interest	265	164	93	126	113
	48,091	**42,645**	**34,734**	**29,543**	**24,535**
Expenses					
Salaries and employee benefits	42,592	35,310	28,671	24,009	19,274
Operating and administrative	5,845	5,108	4,268	4,428	3,476
Amortization of capital assets	881	769	808	830	1,262
	49,318	**41,187**	**33,747**	**29,267**	**24,012**
Net (loss) income	**($1,227)**	**$1,458**	**$987**	**$276**	**$523**
Retained earnings, beginning of year	**5,319**	**3,861**	**2,874**	**2,598**	**2,075**
Retained earnings, end of year	**$4,092**	**$5,319**	**$3,861**	**$2,874**	**$2,598**
Assets					
Cash	$7,845	$7,295	$5,152	$4,307	$4,232
Accounts receivable, related parties, prepaids and advances	7,850	7,648	6,152	5,306	4,570
Capital assets	1,595	1,483	1,504	1,444	889
	$17,290	**$16,426**	**$12,808**	**$11,057**	**$9,691**
Liabilities					
Accounts payable, related parties and accrued liabilities	$4,885	$4,216	$3,361	$3,655	$3,294
Provision for employee benefits	8,313	6,891	5,586	4,528	3,799
	13,198	**11,107**	**8,947**	**8,183**	**7,093**
Capital stock and retained earnings					
Common shares	–	–	–	–	–
Retained earnings	4,092	5,319	3,861	2,874	2,598
	4,092	5,319	3,861	2,874	2,598
	$17,290	**$16,426**	**$12,808**	**$11,057**	**$9,691**
Cash flows from (used in)					
Operating activities	$1,543	$2,891	$1,713	$1,467	$2,877
Acquisition of capital assets	(993)	(748)	(868)	(1,392)	(904)
	550	**2,143**	**845**	**75**	**1,973**
Cash, beginning of year	$7,295	5,152	4,307	4,232	2,259
Cash, end of year	**$7,845**	**$7,295**	**$5,152**	**$4,307**	**$4,232**

FUTURE OUTLOOK – TABLE 16

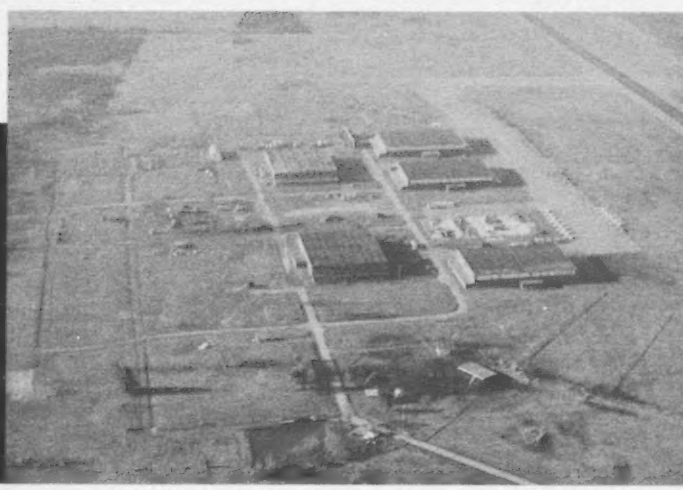
The Corporation has traditionally taken a conservative approach to forecasting future growth. The Corporation's latest Corporate Plan shows an increase in revenues of 12.0% for 2007–08. This increase is due to a combination of higher business volumes and a planned increase in billing rates of approximately 3.0%. For the remaining Plan years, revenue growth has been forecasted to increase year over year by approximately 3.0%, which is in line with expected increases in salaries and benefits. Business volumes are assumed to remain constant over this period. Salaries and benefits expenses for 2007–08 are forecasted to increase by approximately 9.0% over the previous year. This increase is due to a combination of an expected increase in staff and inflationary and merit increases to salaries. For future years, the Corporation's financial forecasts assume an increase in salaries and benefits of approximately 3.0% year over year, with staff strength assumed to remain constant over this period.

Operating and administrative expenses for 2007–08 are projected to increase by 5.0% over the previous year. This increase is due to a combination of inflationary increases and increased business volume. For the remaining Plan years, operating and administrative expenses are forecasted to increase year over year by 3.0%, primarily to cover projected inflation increases.

Amortization of capital assets is expected to increase by 11.0% in 2007–08 over the previous year, due mainly to the projected increase in capital expenditures. Projections for capital expenditures, as discussed below, will affect the year-to-year fluctuation in the amortization of capital assets over the remaining years of the Plan.

A break-even net income is forecast for 2007–08 in order to maintain adequate financial resources for operating purposes given the loss of $1,227,000 that was incurred in 2006–07. This is in keeping with the Corporation's financial management policy, previously discussed. For the remaining Plan years, the forecast assumes break-even income.

Capital expenditures are projected to increase by 13.0% in 2007–08 over the previous year. The anticipated expenditures for the year ending March 31, 2008, will primarily relate to ongoing requirements to provide computers and software to new employees, as well as to upgrade older computer systems and software. Increased capital spending is projected in the last three years of the Plan in anticipation of expected upgrades to the Corporation's main computer systems and software applications.



DCC staff at CFB Trenton coordinated the expansion of the Austere Runway at CFD Mountain View. This $1.5-million project consisted of installing storm drainage and expanding the existing gravel and grass runway by 1.5 km. It is used to conduct unpaved runway training on Hercules aircraft.

FUTURE OUTLOOK ($000's) – TABLE 16

	2006–07 ACTUAL	2007–08 PLAN	2008–09 PLAN	2009–10 PLAN	2010–11 PLAN	2011–12 PLAN
Revenue						
Services	$47,826	$53,418	$55,165	$56,930	$58,780	$60,661
Interest	265	186	208	218	222	223
	48,091	**53,604**	**55,373**	**57,148**	**59,002**	**60,884**
Expenses						
Salaries and employee benefits	42,592	46,462	47,856	49,292	50,771	52,294
Operating and administrative	5,845	6,161	6,346	6,536	6,732	6,934
Amortization of capital assets	881	979	1,166	1,300	1,478	1,614
	49,318	**53,602**	**55,368**	**57,128**	**58,981**	**60,842**
Net income (Loss)	**$(1,227)**	**$2**	**$5**	**$20**	**$21**	**$42**
Capital expenditures	**$993**	**$1,119**	**$1,200**	**$1,400**	**$1,600**	**$1,800**

GLANCE FORWARD

For DCC, the past five years has been marked by growth of service offerings to the Department of National Defence, and this trend is expected to continue for next year, and beyond. Although DND spending for its capital construction program has remained consistent around the $400 to $450 million mark, it is turning to DCC increasingly more often to handle projects that could be considered to be on the periphery of construction contract management. These types of projects include project and program management support, facilities management, and very diverse and specialized environmental projects. DCC's ready and flexible capability has managed these client requirements over the past few years quite adroitly, and will continue to do so. In 2006–07, DCC's non-construction services contributed 38% of its service revenue. This is a clear sign that the Corporation is not exclusively a construction contract management firm anymore, and in the future, diversity in the evolution of the business is a certainty.

To meet the challenges that this diversity brings, DCC has undertaken some strategic corporate initiatives that focus on the theme of *people*. In the strategic plan for 2007–08, the factor of human resources was considered so important, that for planning purposes, the new strategic theme of *people* was created to manage the associated initiatives and progress. The Corporation understands that in this time of business evolution, elements of human resources such as learning and development, internal communications, succession planning, and recruitment and retention are critical to business success. Both in the short and medium term, senior management will apply special attention to these areas in order to ensure the viability and the success of the Corporation. This may mean a slight decrease in the utilization rate for the short term; however, work in these areas is regarded as a long term investment for the benefit of the client.

Environmental issues such as climate change, energy conservation and meeting international environmental targets are at the forefront for Canada, and are important to the client, the Department of National Defence. The Corporation has developed expertise in the areas of green construction and project management for LEED certified projects, and has already provided support for the client in these areas. If there are increasing demands for support in this area, DCC is well-positioned with its established matrix service delivery system for its environmental service line. This was the first service line that was officially re-organized along the matrix style of management, and it would be able to support any increased demand for the Department in this area.

The Corporation's employee population is expected to rise to 600 full time staffers at the end of 2007–08, a 47.0% increase over the number of employees five years ago at the end of 2002–03. Clearly, this time could be viewed as being in the middle of a transition time for DCC on many fronts. Looking forward five years, there are many variables that could affect the Corporation's scope and/or range of services. The major factor will be the demands of the Canadian government in the area of defence services, and the subsequent priorities of DND and the CF. DCC has a well established track record of success in construction contract management and infrastructure support services. This collective core expertise, held together by 55 years of culture, good governance and steady management will enable the Corporation to meet these needs into the future.

2006–07 Financial Statements

Management Responsibility Statement 56

Auditor's Report 57

Balance Sheet 58

Statement of Operations 59

Statement of Retained Earnings 59

Statement of Cash Flows 60

Notes to Financial Statements 61

Management Responsibility Statement

The management of the Corporation is responsible for the performance of the duties delegated to it by the Board of Directors. These include the preparation of an Annual Report and the production of its contents, together with the financial statements. These statements, approved by the Board of Directors, were prepared in accordance with Canadian generally accepted accounting principles appropriate in the circumstances and consistently applied. Financial and operating information appearing in the Annual Report is consistent with that contained in the financial statements.

Management relies on internal accounting control systems designed to provide reasonable assurance that relevant and reliable financial information is produced and that transactions comply with the relevant authorities.

Management also maintains financial and management control systems and practices designed to ensure the transactions are in accordance with Part X of the *Financial Administration Act* and regulations, the *Defence Production Act*, the *Canada Business Corporations Act* and the articles and by-laws of the Corporation. These systems and practices are also designed to ensure that assets are safeguarded and controlled and that the operations of the Corporation are carried out effectively. In addition, the Audit Committee, appointed by the Board of Directors, oversees the internal audit activities of the Corporation and performs other such functions as are assigned to it.

The Corporation's external auditor, the Auditor General of Canada, is responsible for auditing the financial statements and for issuing the report thereon.

Ross Nicholls
President
and Chief Executive Officer

Angelo Ottoni
Chief Financial Officer

May 4, 2007

AUDITOR'S REPORT

Auditor General of Canada
Vérificatrice générale du Canada

To the Minister of Public Works and Government Services

I have audited the balance sheet of Defence Construction (1951) Limited as at March 31, 2007 and the statements of operations, retained earnings and cash flows for the year then ended. These financial statements are the responsibility of the Corporation's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of the Corporation as at March 31, 2007 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles. As required by the *Financial Administration Act*, I report that, in my opinion, these principles have been applied on a basis consistent with that of the preceding year.

Further, in my opinion, the transactions of the Corporation that have come to my notice during my audit of the financial statements have, in all significant respects, been in accordance with Part X of the *Financial Administration Act* and regulations, the *Defence Production Act*, the *Canada Business Corporations Act*, and the articles and by-laws of the Corporation.

Richard Flageole, FCA
Assistant Auditor General
for the Auditor General of Canada

Ottawa, Canada
May 4, 2007

BALANCE SHEET
AS AT MARCH 31, 2007 (IN THOUSANDS OF DOLLARS)

	2007	2006
ASSETS		
Current		
Cash	$ 7,845	$ 7,295
Due from related parties (note 5)	7,351	7,212
Prepaids, advances and accounts receivable	499	436
	15,695	14,943
Capital assets (note 3)	1,595	1,483
	$ 17,290	$ 16,426
LIABILITIES		
Current		
Accounts payable and accrued liabilities	$ 4,839	$ 3,684
Due to related parties (note 5)	46	532
Current portion – provision for employee future benefits (note 4)	237	329
	5,122	4,545
Provision for employee future benefits (note 4)	8,076	6,562
	13,198	11,107
CAPITAL STOCK AND RETAINED EARNINGS		
Capital stock		
Authorized – 1,000 common shares of no par value		
Issued – 32 common shares	–	–
Retained earnings	4,092	5,319
	4,092	5,319
	$ 17,290	$ 16,426

Contingencies (note 8)

The accompanying notes are an integral part of these financial statements.

Approved by the Board of Directors:

Director
Robert Presser

Director
Kris Matthews

Statement of Operations
for the year ended March 31, 2007
(in thousands of dollars)

	2007	2006
REVENUE		
Services (note 5)	$ 47,826	$ 42,481
Interest	265	164
	48,091	42,645
EXPENSES		
Salaries and employee benefits	42,592	35,310
Operating and administrative	5,845	5,108
Amortization of capital assets	881	769
	49,318	41,187
Net (loss) income	$ (1,227)	$ 1,458

Statement of Retained Earnings
For the year ended March 31, 2007
(in thousands of dollars)

	2007	2006
Retained earnings at beginning of year	$ 5,319	$ 3,861
Net (loss) income	(1,227)	1,458
Retained earnings at end of year	$ 4,092	$ 5,319

The accompanying notes are an integral part of these financial statements.

Statement of Cash Flows
for the year ended March 31, 2007
(in thousands of dollars)

	2007	2006
Cash Flows From Operating Activities		
Net (loss) income	$ (1,227)	$ 1,458
Items not requiring cash		
Provision for employee future benefits	1,782	1,395
Amortization	881	769
Net increase (decrease) in non-cash working capital balances related to operations	467	(641)
	1,903	2,981
Employee severance and other benefits paid	(360)	(90)
	1,543	2,891
Cash Flows Used In Investing Activities		
Acquisition of capital assets	(993)	(748)
Increase in cash during the year	550	2,143
Cash at beginning of the year	7,295	5,152
Cash at end of the year	$ 7,845	$ 7,295

The accompanying notes are an integral part of these financial statements.

Notes to Financial Statements
March 31, 2007

1. Authority and Objective

Defence Construction (1951) Limited was incorporated under the *Companies Act* in 1951 pursuant to the authority of the *Defence Production Act* and continued under the *Canada Business Corporations Act.* The Corporation is an agent Crown corporation named in Part I of Schedule III to the *Financial Administration Act.* Since 1996, responsibility for the Corporation has rested with the Minister of Public Works and Government Services. The Corporation is not subject to income taxes.

The mandate of the Corporation is to provide procurement, construction, professional, operations and maintenance services in support of the defence of Canada. The prime, but not exclusive, beneficiary of the Corporation's services has always been the Department of National Defence. Other government departments and agencies who play a role in Canada's defence may also avail themselves of these services. Revenue is generated from fees charged for specific services provided.

2. Significant Accounting Policies

These financial statements are prepared in accordance with Canadian generally accepted accounting principles. The significant accounting policies followed in the preparation of these financial statements are summarized below.

Capital Assets

Capital assets are comprised of leasehold improvements, equipment and computers (which includes hardware, purchased software and implementation costs). These assets are amortized on a straight-line basis as follows:

Equipment	5 years
Computers	3 years
Leasehold improvements	Initial lease term

In the year of acquisition, a full year of amortization is recognized.

Employee Future Benefits

Employees are entitled to specific severance and other non-pension benefits as well as participating in the Public Service Pension Plan administered by the Government of Canada.

- Severance and other non-pension benefits

The projected accrued benefit obligations are actuarially determined using the projected benefit method pro-rated on services (which incorporates management best estimates of expected salary escalation, retirement ages of employees and expected health care costs). The current year expense is comprised of current service cost during the year, imputed interest on the projected benefit obligation and the amortization of the actuarial loss in excess of 10% of the benefit obligation over the average remaining service period of active employees.

- Pension benefits

Although the Public Service Pension Plan is a defined benefit plan, it meets the definition of a multi-employer plan, which is accounted for as a defined contribution plan, as sufficient information is not available to record it as a defined benefit plan. The Corporation's contributions to the plan are currently based on a multiple of the employees' required contributions, and may change over time depending on the experience of the plan. These contributions represent the total pension obligations of the Corporation and are expensed during the year in which the services are rendered. The Corporation is not required under present legislation to make contributions with respect to actuarial deficiencies of the Public Service Pension Plan.

REVENUE

Revenue is recognized in the year the service is performed.

MEASUREMENT UNCERTAINTY

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting year. The most significant estimate in these financial statements is the provision for employee future benefits. Actual results could differ significantly from this estimate.

3. CAPITAL ASSETS

(IN THOUSANDS OF DOLLARS)	2007			2006
	Cost	Accumulated Amortization	Net	Net
Equipment	$ 1,688	$ 1,251	$ 437	$ 345
Computers	7,987	7,431	556	509
Leasehold Improvements	964	362	602	629
	$ 10,639	$ 9,043	$ 1,595	$ 1,483

4. PROVISION FOR EMPLOYEE FUTURE BENEFITS

- Severance and other non-pension benefits

The benefit plan is not funded and thus has no assets, resulting in a plan deficit equal to the accrued benefit obligation.

(IN THOUSANDS OF DOLLARS)	2007	2006
Total provision for employee future benefits	$ 8,313	$ 6,891
Less: current portion	237	329
	$ 8,076	$ 6,562

(IN THOUSANDS OF DOLLARS)	2007	2006
Projected accrued benefit obligations	$ 9,047	$ 8,039
Unamortized actuarial losses	(734)	(1,148)
Provision for employee future benefits	8,313	6,891
Current year's expense	1,782	1,395
Benefits paid during the year	$ 360	$ 90

The significant actuarial assumptions adopted in measuring the Corporation's severance and other benefit plans are as follows:

	2007	2006
Discount rate for projected benefits obligation	5.15%	5.25%
Average rate of general salary increases	3.24%	3.67%
Inflation rate	2.24%	2.67%
Average rate of extended health care cost increases	4.24%	4.67%
Mortality rates based on mortality tables:		
Uninsured Pensioner 1994 with mortality projections to year 2015 (UP94@2015) for 2007, and Group Annuity Mortality 1994 (GAM1994) for 2006	UP94@2015	GAM1994
Retirement age	59	59

The measurement date for the last actuarial valuation of the accrued benefits obligation was April 3, 2007. The next actuarial valuation is planned for April 2008.

- Pension benefits

The current year's contributions by the Corporation to the Plan were $4,006,873 (2006 — $3,080,666).

5. RELATED PARTY TRANSACTIONS

The Corporation is related in terms of common ownership to all Government of Canada departments, agencies and Crown corporations. The Corporation enters into transactions with these entities in the normal course of business under its stated mandate. These transactions are measured at the exchange amount, which is the actual amount of the consideration given or received for the services provided. The Corporation's services revenue is generated primarily from services provided to the Department of National Defence.

The Department of National Defence provides office space free of charge for some employees of the Corporation.

Amounts due from and to related parties at the end of the year are as follows:

(IN THOUSANDS OF DOLLARS)	2007	2006
Due from:		
Department of National Defence	$ 7,267	$ 7,020
Public Works and Government Services Canada	84	171
Foreign Affairs and International Trade Canada	–	16
Natural Resources Canada	–	5
	$ 7,351	$ 7,212
Due to:		
Department of National Defence	$ 6	$ 116
Public Works and Government Services Canada	22	416
Justice Canada	2	–
Human Resources and Social Development Canada	8	–
Canada School of Public Service	8	–
	$ 46	$ 532

6. LEASE COMMITMENTS

The Corporation leases office space for its operations. The future minimum annual lease payments are as follows:

YEAR ENDING MARCH 31: (IN THOUSANDS OF DOLLARS)		
2008	$	1,529
2009		1,529
2010		1,410
2011		1,304
2012		1,052
2013-2014		1,815
	$	8,639

7. FINANCIAL INSTRUMENTS

Financial instruments consist of cash, accounts receivable and accounts payable. Accounts receivable and accounts payable are primarily due on demand and non-interest bearing. The carrying amounts of these financial instruments approximate fair values due to their short-term nature. With the exception of amounts due from the Department of National Defence and other government departments, there is no concentration of accounts receivable with any one customer and, accordingly, no significant credit risk exists.

8. CONTINGENCIES

Letters of credit aggregating $200,000 (2006 – $200,000) in respect of contractual obligations are currently outstanding. The Corporation is currently involved in legal claims in respect of contractual obligations totalling $14,628,938 (2006 – $6,031,325) and in respect of employment matters totalling $75,000 (2006 – $125,000). In the opinion of management and legal counsel, the position of the Corporation is defensible. However, the final outcome of such claims is not determinable. In accordance with the terms of an Annex to the Memorandum of Understanding between the Corporation and the Department of National Defence, the settlements resulting from the resolution of any existing and future legal claims in respect of contractual obligations will be entirely funded by the Department, in the year of settlement. As a result of this Annex, and its assessment of risk, the Corporation does not consider it necessary to record any liabilities in its financial statements relating to potential legal claims.